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KEDI ECONOMIC SURVEY

July 1, 1987

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SOURCES:

U.S.Department of Commerce third estimate of 1987:1, National Income and Product data, June 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, June 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

The economy will continue a six year growth through 1988 with less unemployment, more output, and smaller federal deficit.

Prices

Look for moderate consumer and business inflation for the balance of this year with a slight acceleration in 1988.

Employment & Labor

Main increases in employment are expected in services with a 9 to 1 ratio of new jobs for services versus manufacturing.

Housing

May housing starts declined by 2.7% compared to April starts for the third consecutive decline in starts this year.

Automobiles

Despite a potpouri of rebates, prices of cars in the past 18 months have risen faster than average family income.

Budgets

Continued sstrong government demand for money would displace private investment, push up interest rates and fuel inflation.

Income

KEDI forecast data point to approximately 13% growth of earnings this year and 15% growth in 1988 over 1987.

Money & Credit

The FED will not have to generate as much money as in the past as the deficit continues to decline and trade imbalance improves.

Interest Rates, Yields & Securities Prices

Expect interest rates to remain at present levels for the balance of this year with a slight decline in 1988.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.00 on page 3 shows forecast data of selected indicators of the July 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3674.9	4231.6	4333.1	4445.8
product, p. 5	% change	3.0	3.1	2.4	2.6
Index of indust.	1977=100	125.1	142.2	146.7	151.7
prod., p. 5	% change	2.8	3.2	3.2	3.4
Capacity	%	79.6	81.7	80.8	80.1
utiliz., p. 5	% change	0.0	.1	-1.0	-.9
Unemployment	%	7.0	5.7	6.5	6.4
rate, p. 5	% change	-10.8	-1.2	1.1	-.9
Private housing	mil.units	1.8	1.9	1.8	1.9
starts, p. 5	% change	-3.1	3.4	-2.4	3.5
Car sales,	mil.units	11.5	10.9	10.8	11.2
p. 5	% change	-17.4	2.9	-.9	4.0
Implicit GNP	1982=100	114.5	137.2	142.1	147.4
price def.,p.11	% change	3.2	3.5	3.6	3.7
Consumer Price	1967=100	328.4	381.2	393.4	407.5
Index, p. 11	% change	3.2	3.6	3.2	3.6
Prod.Price Index	1967=100	289.6	346.1	361.7	375.4
(fin.goods),p.11	% change	3.0	4.2	4.5	3.8
Federal Deficit	bil. $	-203.3	-117.9	-95.4	-76.6
p. 21	% change	3.2	-13.6	-19.1	-19.7
Personal Income	bil. $	3485.7	4879.2	5206.1	5596.6
p. 23	% change	5.3	6.9	6.7	7.5
Prime Rate	%	8.3	8.0	8.7	9.5
p. 27	% change	-11.6	-4.5	9.1	8.6
Mortgage Rate	%	9.8	10.3	10.0	10.2
p. 27	% change	-.1	5.9	-2.8	2.0
Currency+demand	bil. $	673.2	951.1	1015.8	1081.8
deposits , p. 25	% change	10.7	7.3	6.8	6.5
Commercial+ind.	bil. $	517.6	595.7	612.9	625.8
loans, p. 25	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh:tons	87.4	90.2	90.8	91.3
production	% change	-.1	.3	.9	.4
Electric power	mil.kw-hr	2614	3350	3342.8	3499.6
production	% change	6.0	3.9	3.6	4.7
Bituminous coal	mil.sh.tons	872	965	973.3	984.1
production	% change	-.1	1.5	1.3	1.5
Crude oil	avg. daily bbl.	3261	2358	2371.7	2426.2
output	% change	.8	2.0	2.2	2.3
Retail sales	bil. $	1454.4	1871.3	1987.3	2126.4
p. 7	% change	6.0	6.8	6.2	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+ 4.28%	Index Indus. Prod.
+ 3.84%	GNP
+ 2.97%	Autos
+ 2.19%	Private Housing Starts
+ 1.13%	Capacity Util.
- 6.47%	Unemployment

THE ECONOMY WILL CONTINUE A SIX YEAR GROWTH THROUGH 1988 WITH LESS UNEMPLOYMENT, MORE OUTPUT, SMALLER FEDERAL DEFICIT AND FOREIGN TRADE DEFICIT, AS WELL AS MODERATE INFLATION.

The economy will improve significantly compared to this year's performance:

Key Indicators:

	1987	1988
GNP in 82$ growth rate	+3.0%	+3.7%
Unemployment rate	6.3%	5.9%
Indus. prod. increase	+2.8%	+4.1%
Consumer prices increase	+3.2%	+4.0%
3mo. Treasury bills rate	5.5%	5.3%

So--the economic sky won't collapse on President Reagan. On the contrary, the economy in 1988 will accelerate.

KEDI's forecast data for 1989 and beyond are based on the assumption that appropriate economic policies will continue in the next Administration.

KEDI sees NO RECESSION in the foreseeable future. The expansion will not die of old age--only of inappropriate economic policies.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3674.9	125.1	7.04	79.6	1.805	11.5
1987:1*	3739.4	126.8	6.67	80.1	1.822	9.4
2	3768.7	127.4	6.23	79.9	1.769	9.2
3	3799.4	128.8	6.18	80.1	1.691	9.6
4	3836.9	131.6	6.04	80.2	1.711	9.8
YEAR	3786.1	128.7	6.28	79.6	1.748	9.5
% change from '86	3.0	2.8	-10.8	0.0	-3.1	-17.4
1988:1	3858.9	132.0	6.11	80.1	1.702	9.8
2	3881.1	133.5	6.04	80.5	1.742	10.2
3	3916.7	134.9	5.95	81.0	1.775	11.1
4	4053.9	135.2	5.77	81.6	1.730	10.5
YEAR	3927.7	133.9	5.97	80.8	1.737	10.4
% change from '87	3.7	4.1	-5.0	1.5	-.6	9.5
1989:1	4064.0	136.9	5.81	81.2	1.686	10.0
2	4085.1	137.1	5.74	81.4	1.846	10.5
3	4100.1	138.1	5.62	81.8	1.880	10.8
4	4120.1	138.9	5.73	81.9	1.815	10.9
YEAR	4092.3	137.8	5.72	81.6	1.807	10.6
% change from '88	4.2	2.9	-4.1	1.0	4.0	1.4

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+15.05%	Pers. Con. Exp. Services
+14.95%	Retail Sales Durable
+ 8.19%	Retail Sales Total
+ 5.35%	Pers. Con. Exp. Nondurable
+ 4.20%	Retail Sales Nondurable
+ 3.26%	Pers. Con. Exp. Durable

CONSUMERS HAVE NOT STOPPED SPENDING--ALTOGETHER. FOR THE REST OF 1987 AUTOS WILL BE FLAT, SMALL INCREASES IN OTHER CONSUMER DURABLES, AND CONTINUOUS GROWTH IN CONSUMPTION OF SERVICES.

THE 1988 PICTURE IS BRIGHTER:

* Autos will resume an upward trend.
* Building and home improvements will perform strongly.
* Expect average increases in the nondurables segment, especially for food products, beverages, and gasoline.
* There will be above average increases in apparel, shoes and specialty products.

In 1989, retail sales will slow down but not go flat, while 1990 and beyond shows no downturn or stopping of buying during the forecast period.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.-			**------Retail Sales-------*		
	Durables	Nondur-ables	Services	Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	388.1	932.7	1441.7	1454.4	568.1	888.3
1987:1*	303.0	960.3	1587.1	1483.2	536.4	926.8
2	333.8	965.4	1193.8	1515.6	557.1	958.5
3	364.5	978.1	1653.7	1554.3	577.4	943.1
4	389.2	985.1	1709.8	1586.2	600.3	985.9
YEAR	347.6	972.2	1536.1	1534.8	567.8	953.6
% change from '86	-10.4	4.2	6.5	5.5	-.1	7.3
1988:1	384.8	998.5	1722.2	1634.1	624.1	1010.0
2	405.2	1019.1	1744.4	1643.7	638.8	1004.9
3	426.3	1030.7	1780.6	1662.1	665.1	997.0
4	424.3	1046.9	1979.4	1691.2	688.3	1002.9
YEAR	410.1	1023.8	1806.6	1657.8	654.1	1003.7
% change from '87	18.0	5.3	17.6	8.0	15.2	5.3
1989:1	429.5	1061.3	2052.9	1726.0	698.4	1027.6
2	436.4	1076.1	2113.6	1743.2	711.8	1031.4
3	446.1	1095.8	2156.3	1759.1	727.1	1032.0
4	450.4	1118.2	2267.0	1780.2	734.5	1045.7
YEAR	440.6	1087.8	2147.4	1752.1	718.0	1034.2
% change from '88	7.4	6.3	18.9	5.7	9.8	3.0

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+ 3.99%	State Local Purch.
+ 3.84%	GNP
+ 3.79%	Pers. Cons. Expend.
+ 3.19%	Federal Govt. Purch.
+ 1.15%	Gross Private Dom. Inv.
-12.09%	Net Exports

THIS YEAR THE GNP IS PREDICTED TO BE 3.0% WITH ACCELERATION IN 1988 TO 3.6%.

This prediction is in line with the majority of forecasters who currently believe in a slow but steady growth path of about 3% for the remainder of this year and next.

KEDI's long-term prediction of GNP calls for some slowing down in 1989 with a return to 3-4% growth in the following years.

Forecast data point to foreign trade as an important factor that will contribute to overall growth.

* Exports of US goods and services are expected to grow at a brisk rate this year and the following years.
* The volume of imports will remain essentially flat.
* Look for significant improvements in trade with Japan, Germany and Great Britain.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3674.9	2418.7	657.2	-147.8	332.2	414.6
1987:1*	3739.4	2438.8	686.2	-133.7	325.3	424.8
2*	3768.7	2474.7	669.7	-134.9	329.9	429.3
3*	3799.4	2501.3	655.3	-126.3	335.9	433.2
4*	3836.9	2518.7	660.0	-121.1	340.6	438,7
YEAR	3786.1	2483.4	667.8	-129.0	332.9	431.5
% change from '86	3.0	2.7	1.6	-12.7	.2	4.1
1988:1	3858.9	2527.7	668.4	-119.4	342.0	440.2
2	3881.1	2534.0	670.2	-113.5	346.6	443.8
3	3916.7	2557,6	671.4	-109.6	350.1	447.2
4	4053.9	2687.8	675.7	-114.3	354.3	450.4
YEAR	3927.7	2576.8	671.4	-114.2	348.2	445.4
% change from '87	3.7	3.8	.5	-11.5	4.6	3.2
1989:1	4064.0	2690.7	676.3	-115.4	357.3	455.1
2	4085.1	2699.6	678.9	-113.1	360.1	459.6
3	4100.1	2705.5	677.8	-110.0	364.4	462.4
4	4120.1	2716.8	680.7	-112.1	369.0	465.7
YEAR	4092.3	2715.8	678.4	-112.7	350.1	460.7
% change from '88	4.2	5,4	1.0	-1.4	.5	3.4

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+ 6.18%	Pers. Cons. Expend.
+ 5.92%	Producer Price Index
+ 5.85%	Federal Govt. Purch.
+ 4.79%	GNP
+ 4.66%	State Local Purch.
+ 4.04%	Consumer Price Index

LOOK FOR MODERATE CONSUMER AND BUSINESS INFLATION FOR THE BALANCE OF THIS YEAR WITH A SLIGHT ACCELERATION IN 1988.

* Increases in the international price of oil from the slump of $10-12 in mid 1985 to $18-20 in 1986 has already been absorbed. Further increases of $1-2 will not push up consumer and producer prices significantly.

* So far, the inflationary effects of the decline of the international dollar have been minimal. It is expected that the upward pressures generated by the low value of the dollar will remain modest.

* There are no indications that international prices of crude materials will move significantly upwards in the foreseeable future.

* Actual data of labor contracts concluded and forecast data on expected labor contracts indicate that there will not be strong upward pressure on prices from the labor side.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	328.4	289.6	114.5	114.2	110.2	120.1
1987:1*	333.9	292.0	116.4	116.9	112.2	123.1
2	337.9	295.2	117.5	100.7	113.5	124.5
3	340.1	300.8	118.7	119.8	114.8	125.6
4	344.2	305.2	119.9	122.4	106.7	127.2
YEAR	339.0	298.3	118.1	119.4	111.8	125.1
% change from '86	3.2	3.0	3.2	4.5	1.5	4.2
1988:1	348.7	309.2	121.1	122.9	117.5	128.3
2	351.4	313.6	122.8	125.0	118.9	129.8
3	353.9	318.6	124.2	126.6	120.7	132.0
4	356.8	321.2	126.1	128.4	122.6	133.2
YEAR	352.7	315.6	123.5	125.7	119.9	130.8
% change from '87	4.0	5.8	4.6	5.3	7.3	4.6
1989:1	361.7	325.1	128.8	131.7	125.1	134.1
2	365.3	329.3	131.1	134.3	127.4	136.2
3	369.5	334.3	133.4	136.7	129.6	138.8
4	375.2	339.9	136.8	141.2	131.4	141.1
YEAR	367.9	332.1	132.5	136.0	128.4	137.6
% change from '88	4.3	5.2	7.3	8.1	7.0	5.1

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+10.25%	Pers. Cons. Expend.
+ 9.12%	Federal Govt. Purch.
+ 8.87%	State Local Purch.
+ 8.83%	GNP
+ 1.56%	Gross Private Dom. Inv.
+ .48%	Net Exports

THE EXPECTED SLOW DOWN IN THE GROWTH OF GNP IN THE SECOND QUARTER OF THIS YEAR IS ONLY TEMPORARY.

FOR THE SECOND HALF OF THIS YEAR LOOK FOR A RESUMPTION OF GROWTH.

* Consumer spending, representing two thirds of GNP will continue increasing moderately.
* The export-import gap will continue to narrow.
* Government expenditures will continue to increase.
* Business capital formation will keep up at a slow pace.
* Private housing will essentially remain flat.
* Changes in inventories will be flat withsome declines in the third and fourth quarters.

So, four of the six components of GNP that represent approximately 95% of GNP will clearly continue in their upward swing. That translates into moderate gains of GNP throughout the rest of this year and into the next.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------*					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4206.1	2762.1	683.6	-104.2	366.2	498.0
1987:1*	4352.5	2850.4	722.2	-107.9	365.0	522.8
2	4428.2	2493.0	704.3	-114.5	374.4	534.5
3	4509.9	2996.3	702.8	-118.9	385.6	544.1
4	4600.4	3084.1	708.2	-113.3	363.4	558.0
YEAR	4472.3	2964.6	709.4	-113.7	372.1	539.9
% change from '86	6.3	7.3	3.8	9.1	1.6	8.4
1988:1	4673.1	3105.5	711.1	-110.1	401.9	564.8
2	4766.0	3168.7	715.2	-106.1	412.1	576.1
3	4864.5	3237.6	716.5	-102.4	422.6	590.3
4	5112.0	3450.6	727.3	-100.2	434.4	599.9
YEAR	4853.9	3240.6	717.5	-104.7	417.7	582.8
% change from '87	8.5	9.3	1.1	-7.9	12.3	7.9
1989:1	5234.4	3543.7	730.6	-97.1	447.0	610.3
2	5355.6	3626.1	733.8	-89.1	458.8	626.0
3	5469.5	3698.2	739.1	-81.8	472.3	641.8
4	5636.3	3835.6	735.8	-77.1	484:9	657.1
YEAR	5423.4	3692.7	734.8	-86.3	465.7	633.8
% change from '88	11.7	14.0	2.4	-17.6	11.5	8.8

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+ 3.50%	Non-Agri.
+ 3.41%	Total Employed
+ 2.96%	Civilian Labor Force
0.00%	Agri-culture
- 1.40%	Popula-tion
- 6.47%	Unemploy-ment rate

MAIN INCREASES IN EMPLOYMENT ARE EXPECTED IN SERVICES. A 9 TO 1 RATIO WILL PERSIST WITH 9 OUT OF 10 NEW JOBS GOING TO SERVICES WITH ONLY ONE OUT OF TEN IN THE GOODS PRODUCING SEGMENTS.

Forecast data for the unemployment rate have been reduced slightly compared to the June KEDI forecast This is due mainly to a more optimistic outlook for employment in goods producing industries for the rest of this year and beyond.

In construction, main increases are expected in roads construction and repairs, while private housing will remain essentially flat, and apartment housing will not improve until next year.

Look for an improvement in oil and gas extraction and stone quarrying, with some increases in coal mining.

Forecast data show stabilization in most durable industries, and some increments of nondurable manufacturing, specifically foods, textile and apparel, chemicals, and miscellaneous manufacturers.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	119.5	109.6	3.2	106.4	7.04
1987:1*	242.9	119.3	111.2	3.2	108.1	6.67
2	243.8	120.1	112.6	3.1	109.5	6.23
3	244.6	121.2	113.7	3.1	110.6	6.18
4	246.3	122.4	115.0	3.1	111.9	6.04
YEAR	244.4	120.8	113.5	3.1	110.3	6.28
% change from '86	1.2	1.0	1.0	-2.3	3.7	-10.80
1988:1	247.5	123.0	115.5	3.1	112.4	6.11
2	249.6	123.9	116.4	3.1	113.3	6.04
3	250.4	124.8	117.4	3.1	114.3	5.95
4	251.5	125.8	118.5	3.1	115.4	5.77
YEAR	249.8	124.4	117.0	3.1	113.9	5.97
% change from '87	2.2	3.0	3.2	-.8	3.2	-4.98
1989:1	253.9	126.8	119.4	3.1	116.3	5.81
2	254.3	127.5	120.2	3.0	117.2	5.74
3	255.1	128.5	121.3	3.0	118.3	5.62
4	256.0	129.7	122.3	3.0	119.3	5.73
YEAR	254.8	128.1	120.8	3.1	117.7	5.72
% change from '88	2.0	3.0	3.1	0.0	3.4	-4.06

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987 FORECAST DATA

Percent Change from June 1987 Forecast

+ 6.36%	1-Family Unit price New
+ 4.77%	1-Family Unit price existing
+ 2.15%	Single Family Housing Starts
+ 1.88%	Multiple Family Housing Starts
+ 1.53%	Permits Issued
- 3.97%	Mobile Home Shipments

MAY HOUSING STARTS DECLINED BY 2.7% COMPARED TO APRIL STARTS FOR THE THIRD CONSECUTIVE DECLINE IN STARTS THIS YEAR.

New home sales dropped in May by 14.9%--the steepest drop since the 19.5% decline in January 1982.

Forecast data indicate that housing activity will continue to decline for the rest of this year with a resumption in growth in 1988.

Expect more activity in multi-family housing next year, especially apartment, while single-family housing starts will only by modest.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1986*	1.179	.626	.244	1.769	112.2	98.3
1987:1*	1.293	.529	.241	1.731	120.0	99.5
2	1.206	.563	.240	1.695	120.9	100.6
3	1.189	.502	.239	1.670	123.7	101.2
4	1.166	.545	.240	1.676	124.4	102.3
YEAR	1.214	.535	.240	1.693	122.2	100.9
% change from '86	2.9	-14.6	-1.6	-4.3	9.0	2.6
1988:1	1.193	.509	.227	1.651	127.0	104.1
2	1.214	.528	.251	1.682	128.1	105.6
3	1.242	.533	.248	1.691	130.1	108.2
4	1.189	.541	.242	1.592	131.3	110.4
YEAR	1.210	.528	.242	1.654	129.1	107.1
% change from '87	-.3	-1.3	.8	-2.3	5.6	6.1
1989:1	1.142	.544	.237	1.564	133.0	112.0
2	1.248	.598	.262	1.684	134.4	113.4
3	1.252	.628	.289	1.721	135.8	115.7
4	1.209	.606	.298	1.765	136.8	117.9
YEAR	1.213	.594	.271	1.683	135.0	114.8
% change from '88	.3	12.6	12.2	1.8	4.5	7.2

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+ 7.14%	Imported Car Sales
+ 4.11%	Shipments
+ 2.97%	Total Car Sales
+ 1.37%	Domestic Car Sales
0.00%	Total Light Truck Sales
-15.79%	Dealer Inventory

DESPITE A POTPOURI OF REBATES, PRICES OF CARS IN THE PAST 18 MONTHS HAVE RISEN FASTER THAN AVERAGE FAMILY INCOME.

This May was the worst month in car sales since the recession of May 1982.

Preliminary data for June show a bit of improvement only.

Car sales are definitely on a declining trend for the balance of this year.

One of the reasons for sluggishness in car sales is price.

Ratio of average new car prices to median family income:

1985: 43.8%
1986: 46.9%
1987: 48.3% (predicted)

U.S. automakers plan to cut production by almost 13% for 1987:3.

Demand is switching to light-duty trucks, especially mini-vans and large-size Jeeps. KEDI forecast points to strong market demand for these vehicles throughout the rest of this year and afterwards.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.6	3.7
1987:1*	9.4	6.8	2.6	1.9	7.7	3.4
2	9.2	6.5	2.7	1.8	7.5	3.5
3	9.6	6.7	2.9	1.9	7.3	3.4
4	9.8	6.9	2.9	1.8	7.2	3.3
YEAR	9.5	6.7	2.8	1.8	7.4	3.4
% change from '86	-17.4	-18.0	-13.3	20.0	-2.3	-8.1
1988:1	9.8	7.0	2.8	1.8	7.4	3.3
2	10.2	7.3	2.9	1.7	7.5	3.4
3	11.1	7.9	3.2	1.7	7.9	3.6
4	10.5	7.4	3.1	1.6	7.6	3.3
YEAR	10.4	7.4	3.0	1.6	7.6	3.4
% change from '87	9.5	1.4	8.1	-11.1	2.4	0.0
1989:1	10.0	7.0	3.0	1.7	7.2	3.2
2	10.5	7.5	3.0	1.8	7.5	3.5
3	10.8	7.7	3.1	1.7	7.3	3.4
4	10.9	7.8	3.1	1.7	7.4	3.5
YEAR	10.6	7.5	3.0	1.7	7.3	3.4
% change from '88	1.4	-.2	1.7	6.2	-3.3	0.0

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+36.22%	State Local Corp. Tax Accrued
+12.35%	Corp. Profit Tax Accrued
+ 6.75%	Federal Income Tax
+ 6.73%	State Surplus/ Deficit
+ 6.46%	State Income Tax
- 9.55%	Federal Surplus/ Deficit

BUDGET DEFICIT REDUCTION IS CRITICAL. CONTINUED GOVERNMENT DEMAND FOR MONEY WILL DISPLACE PRIVATE INVESTMENT, PUSH UP INTEREST RATES, FUEL INFLATION AND CONTRIBUTE TO RECESSIONARY DEVELOPMENTS.

Final estimates of the Federal Budget deficit for 1987:1 recently released by the U.S. Department of Commerce is $170 billion. This is significantly lower than the $200 billion figures in 1986.

KEDI assumes that appropriate policy for reducing the federal deficit will be pursued in the election year and beyond.

Of primary importance now, and in future years, is to reduce foreign borrowing to cover a portion of the deficit.

Dependence on foreign capital has already, in the last months, has resulted in higher interest rates because foreign investors are becoming more and more reluctant to invest in Federal debt.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	361.9	83.8	-203.3	152.1	19.7	63.1
1987:1*	375.0	105.2	-170.4	158.0	23.6	50.2
2	395.2	108.7	-168.9	163.5	24.7	52.5
3	401.1	112.1	-166.5	166.4	26.2	54.0
4	402.0	115.7	-164.3	169.2	28.1	56.4
YEAR	393.3	110.4	-167.5	164.3	25.6	53.3
% change from '86	8.7	31.8	-17.6	8.0	30.2	-15.6
1988:1	408.1	117.2	-160.1	170.1	30.4	57.1
2	416.7	120.5	-157.2	173.4	32.3	59.7
3	422.9	121.8	-150.1	177.5	34.8	60.2
4	428.7	123.9	-146.2	180.8	36.0	62.5
YEAR	419.1	120.8	-153.4	175.4	33.4	59.9
% change from '87	6.6	9.4	-8.4	6.8	30.1	12.4
1989:1	437.1	125.8	-142.1	183.9	37.4	63.1
2	444.0	128.4	-140.3	185.2	39.7	65.2
3	449.6	130.6	-133.2	187.4	41.5	66.3
4	455.8	133.1	-130.1	190.1	42.0	67.8
YEAR	446.6	129.5	-136.4	186.7	40.1	65.6
% change from '88	6.6	7.1	-11.1	6.4	20.3	9.6

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+12.96%	Personal Savings
+12.35%	Corp. After Tax Profit
+10.17%	Personal Disp. Income
+ 9.57%	Personal Income
+ 8.28%	Comp. of Employees
+ 2.36%	Average Weekly Earnings

KEDI FORECAST DATA POINT TO APPROXIMATELY 13% GROWTH OF EARNINGS THIS YEAR AND 15% GROWTH IN 1988 OVER 1987.

Most industries will record significant gains.

Largest gains are forecasted for airlines, financial services, banking, non ferrous metals, biotechnology, insurance, textiles, apparel, electronics, forest products, machinery, rubber and plastics.

Average earnings growth are predicted for food and kindred products, coal, building materials and related products, electronics, aerospace, railroads, paper and products, chemicals, retail trade, oil and oil-related industries, and farm machinery.

Less than average growth of earnings is forecast for ferrous metals, trucking, tools and hardware, automotive manufacturing, stone and glass products and primary metals.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3485.7	2971.6	2498.0	134.0	114.2	382.0
1987:1*	3587.9	3054.9	2567.3	150.2	106.5	391.2
2	3614.9	3056.2	2612.6	158.7	113.2	403.0
3	3679.4	3111.9	2667.4	165.9	115.6	405.2
4	3774.2	3203.0	2723.2	170.2	118.9	407.3
YEAR	3664.1	3106.5	2642.6	161.2	113.5	401.7
% change from '86	5.1	4.5	5.8	20.3	-.6	5.2
1988:1	3910.2	3332.0	2768.7	173.2	121.5	409.1
2	3989.4	3399.3	2799.2	179.6	124.6	412.6
3	4068.4	3468.0	2963.5	183.5	123.5	416.9
4	4291.3	3681.8	2901.5	189.5	123.8	419.2
YEAR	4064.8	3470.3	2858.2	181.4	123.3	414.4
% change from '87	10.9	11.7	8.2	12.5	8.6	3.2
1989:1	4397.1	3776.1	2945.3	194.6	124.3	421.8
2	4492.7	3863.5	2994.1	198.4	128.5	424.5
3	4576.6	3939.6	3031.6	199.2	131.8	427.2
4	4726.9	4081.0	3092.7	204.3	135.1	428.6
YEAR	4548.3	3915.0	3015.9	199.1	129.9	425.5
% change from '88	11.9	12.8	5.5	9.7	5.3	2.7

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

+ 9.26%	Time Deposits
+ 7.69%	Consumer Install. Credit
+ 6.83%	Consumer & Demand Deposits
+ 3.10%	Comm. & Indust. Loans at Banks
+ 2.27%	Large Denom. Time Deposits
+ 1.04%	Mortg. at S & L Assns.

THE FED WILL NOT HAVE TO GENERATE AS MUCH MONEY AS IN THE PAST AS THE FEDERAL DEFICIT CONTINUES TO DECLINE AND THE TRADE IMBALANCE CONTINUES TO IMPROVE.

The growth of monetary aggregates is expected to slow down somewhat for the rest of this year and afterwards.

There is a direct relationship, in this phase of the cycle, between money supply M1 and Federal deficit and balance of trade. A smaller Federal deficit means smaller imbalance in trade which, in turn requires less new money paid abroad and recirculated back to cover the Federal deficit.

Forecast of credit aggregates calls for slowing down in consumer and mortgage credit in the rest of this year, and acceleration in 1988 due to expected higher demand for financing car sales and housing.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	673.2	2681.8	577.8	517.6	447.6	553.1
1987:1*	738.2	2826.7	581.6	520.4	450.1	569.4
2	738.3	2888.3	586.9	525.7	448.7	570.1
3	745.8	2956.1	598.7	531.6	446.5	571.1
4	758.7	3015.5	615.3	547.6	442.3	573.6
YEAR	745.2	2921.7	615.3	547.6	442.3	573.6
% change from '86	10.7	8.9	6.5	5.3	-1.2	3.7
1988:1	768.2	3080.7	620.1	550.4	445.1	574.4
2	787.1	3146.4	630.9	552.0	448.1	576.3
3	805.2	3220.4	642.5	557.6	449.4	578.2
4	826.1	3300.2	662.3	565.0	450.6	581.1
YEAR	796.7	3186.9	662.3	565.0	450.6	581.1
% change from '87	6.9	9.1	7.6	3.2	1.9	1.3
1989:1	837.1	3374.4	681.5	567.7	452.1	590.3
2	884.2	3425.5	694.4	570.0	454.8	605.2
3	906.0	3496.7	718.7	573.6	456.6	619.7
4	918.4	3655.5	737.3	577.4	460.3	628.5
YEAR	886.4	3488.0	737.3	577.2	460.3	628.5
% change from '88	11.3	9.4	11.3	2.2	2.2	8.2

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987 FORECAST DATA

Percent Change from June 1987 Forecast

+16.39%	S & P's 500 Avg.
+ .10%	Conv. Mortg. Rate
- 2.88%	20 yr. Govt. Bonds Yield
- 3.00%	Aaa Corp. Bond Rate
- 4.82%	Prime Rate
- 5.58%	Treas. Bills 3 mo. Yield

EXPECT INTEREST RATES TO REMAIN AT PRESENT LEVELS FOR THE BALANCE OF THIS YEAR. THEY WILL DECLINE A BIT IN 1988 AND INCREASE SLIGHTLY NEAR THE END OF 1988 AND DURING 1989.

Long-term interest rates on bonds are expected to remain stable--no further increaes are expected. Forecast data on short-term interest are also positive--expect some slight declines in 1988.

KEDI assumes that the Federal Reserve will continue pursuing the policy of low interest rates.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR Unit	Treas. bills 3 mo. yield %	Prime rate %	Conv. mortg rate %	Aaa corp. bond rate %	20 yr. Govt. bonds yield %	S & P's 500 Avg 1941-43 = 10
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.85	236.34
1987:1*	5.36	8.50	9.15	8.78	7.56	76.40
2	5.61	8.42	9.94	8.91	7.87	316.20
3	5.60	8.25	10.14	8.83	7.80	319.21
4	5.52	8.25	10.02	8.78	7.64	322.54
YEAR	5.52	8.36	9.81	8.82	7.72	258.59
% change from '86	-7.5	.3	-.1	-2.2	-1.7	9.4
1988:1	5.46	8.25	9.98	8.72	7.56	326.71
2	5.31	8.00	9.87	8.68	7.46	337.42
3	5.22	8.14	9.65	8.60	7.50	348.92
4	5.16	8.20	9.70	8.65	7.82	356.71
YEAR	5.29	8.15	9.80	8.66	7.58	342.44
% change from '87	-4.3	-2.5	-.1	-1.8	-1.7	32.4
1989:1	5.18	8.25	9.84	7.80	7.84	358.27
2	5.28	8.25	9.63	8.58	8.02	360.41
3	5.74	8.50	9.53	8.46	8.06	357.22
4	5.79	8.50	9.85	8.59	7.93	351.54
YEAR	5.50	8.38	9.71	8.36	7.96	356.86
% change from '88	4.0	2.8	-.9	-3.5	5.0	4.2

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Federal Government Expenditures has been selected for comparison. Actual number is in the Survey of Current Business, May 1987 issue, Table 1.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
State and Local Governments Expenditures (bil.$)
Actual figure: 498.0

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy percent difference
Manufacturers Hanover Trust Co., p. 45	12/85	530.9	+6.6
UCLA Business Forecasting Project, p. 46	12/85	535.5	+7.5
The Equitable Life Assurance Society of the U.S., p. 48	12/4/85	526.0	+5.6
Research Seminar in Quantitative Economics, p. 49	12/12/85	528.0	+6.2
Metropolitan Life Insurance. p. 55	1/1/86	499.5	+ .3
Standard & Poor's Corp., p. 58	1/16/86	528.7	+6.2
Money Market Services, Inc., p. 64	1/27/86	501.9	+ .8
Georgia State Univ., p. 66	2/86	495.9	- .4
KEDI, Inc., p. 67	2/1/86	494.0	- .8

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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SOURCES:

U.S.Department of Commerce first estimate of 1987:2, National Income and Product data, July 20,1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, July 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Indicators of economic activity for June and early July continue to point to a solid growth of the economy for the months ahead.

Prices

The outlook for oil and gasoline prices is optimistic unless unpredictable extraordinary events take place.

Employment & Labor

Recent data confirm the trend of increasing employment and decreasing number of unemployed persons.

Housing

Recent data indicate that the decline in housing activity that started in April is leveling off.

Automobiles

Compared to the previous forecast, data on car sales and factory shipments for this year have increased a bit.

Budgets

Budgets do not really call for additional taxation as long as Congress abstains from excessive spending proposals.

Income

There are no signs of a slowdown or negative growth. Look for steady growth the rest of this year and 1988.

Money & Credit

Look for rapid growth of M1, some slowing down of M2 and M3 and resumption of growth of large negotiable CDs.

Interest Rates, Yields & Securities Prices

Interest rates will stabilize at present levels throughout this year and will decline to slightly lower levels for most of 1988.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1989.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.00 on page 3 shows forecast data of selected indicators of the July 1987 KEDI forecast.
* In 1987 moderate growth is expected. It will accelerate in 1988.
* The upward trend will continue throughout 1990-1991.
* Forecast data for 1988-1991 do not point to recession or major downturn.
* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.
* Federal budget deficits will keep declining in 1987 and the following fiscal years.
* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3674.9	4221.9	4323.2	4435.6
product, p. 5	% change	2.5	3.1	2.4	2.6
Index of indust.	1977=100	125.1	142.0	146.5	151.5
prod., p. 5	% change	1.0	3.1	3.2	3.4
Capacity	%	79.6	81.9	81.1	80.3
utiliz., p. 5	% change	-1.0	.1	-1.0	-.9
Unemployment	%	7.0	5.6	6.5	6.4
rate, p. 5	% change	-3.1	-1.2	1.1	-.9
Private housing	mil.units	1.8	1.9	1.8	1.9
starts, p. 5	% change	-4.2	3.6	-2.4	3.5
Car sales,	mil.units	11.5	10.9	11.0	11.4
p. 5	% change	3.2	2.9	1.0	4.0
Implicit GNP	1982=100	114.5	134.6	139.4	144.6
price def.,p.11	% change	2.6	3.5	3.6	3.7
Consumer Price	1967=100	328.4	381.5	393.4	407.5
Index, p. 11	% change	1.9	3.7	3.1	3.6
Prod.Price Index	1967=100	289.6	346.4	362.0	375.7
(fin.goods),p.11	% change	-1.6	4.2	4.5	3.8
Federal Deficit	bil. $	-203.3	-117.2	-94.8	-76.2
p. 21	% change	3.2	-13.6	-19.1	-19.7
Personal Income	bil. $	3485.7	4875.8	5202.5	5592.7
p. 23	% change	5.3	6.9	6.7	7.5
Prime Rate	%	8.3	8.1	8.9	9.6
p. 27	% change	-11.6	-4.5	9.1	8.6
Mortgage Rate	%	9.8	10.3	10.0	10.2
p. 27	% change	-11.7	5.9	-2.7	1.8
Currency+demand	bil. $	673.2	903.2	964.6	1027.3
deposits , p. 25	% change	13.4	7.3	6.8	6.5
Commercial+ind.	bil. $	517.6	596.3	613.6	626.5
loans, p. 25	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	87.4	90.2	90.8	91.3
production	% change	-.1	.4	.9	.4
Electric power	mil.kw-hr	2614	3355	3342.8	3499.6
production	% change	6.0	3.9	3.6	4.7
Bituminous coal	mil.sh.tons	872	951	973.3	984.1
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.2	2.3
Retail sales	bil. $	1454.4	1877.9	1994.4	2134.0
p. 7	% change	6.0	6.9	6.2	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

INDICATORS OF ECONOMIC ACTIVITY FOR JUNE AND EARLY JULY CONTINUE TO POINT TO A SOLID GROWTH OF THE ECONOMY FOR THE MONTHS AHEAD.

Index of Leading Indicators:
May 188.9 June 190.4

Factory Shipments: April 195.96 bil.$ S.A.
May 196.39 bil.$ S.A.
June 197.14 bil.$ S.A.

New Orders in Manufacturing:
May 201.40 bil.$ S.A.
June 204.82 bil.$.S.A.

Unfilled Orders in Manufacturing:
May 380.35 bil.$ S.A.
June 384.63 bil.$ S.A.

Index of Industrial Production:
May 128.0 (1977=100)
June 128.2

These data indicate that the economy continues growing DESPITE weaknesses in automobiles, housing, and sluggish consumer demand.

This means that there is a broad base for future growth and a majority of industries perform well and will continue to improve further.

NO RECESSION THIS YEAR OR NEXT!

1987 FORECAST DATA

Percent Change from July 1987 Forecast

+ 2.74%	Private Housing Starts
+ .60%	GNP
+ .34%	Index Indus. Prod.
+ .25%	Capacity Util.
+ .24%	Autos
- 2.93%	Unemployment

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3674.9	125.1	7.04	79.6	1.805	11.5
1987:1*	3739.4	126.8	6.67	80.1	1.822	9.4
2	3796.5	127.8	6.23	80.2	1.761	9.5
3	3829.6	129.1	5.98	80.3	1.684	9.9
4	3856.7	131.7	5.94	80.3	1.706	9.8
YEAR	3805.6	128.8	6.21	79.6	1.743	9.7
% change from '86	3.6	3.0	-11.9	0.0	-3.4	-16.1
1988:1	3883.9	132.4	6.01	80.2	1.707	9.8
2	3902.2	133.9	5.84	80.5	1.749	10.2
3	3939.7	135.5	5.71	81.4	1.785	11.1
4	4078.9	135.6	5.62	81.9	1.745	10.6
YEAR	3951.2	134.3	5.79	81.0	1.747	10.4
% change from '87	3.8	4.3	-6.6	1.8	.2	8.0
1989:1	4076.1	136.8	5.71	81.8	1.684	10.0
2	4087.2	137.1	5.74	81.8	1.838	10.5
3	4100.3	138.0	5.62	81.7	1.871	10.8
4	4116.1	138.9	5.73	81.9	1.803	10.9
YEAR	4094.9	137.7	5.70	81.8	1.799	10.6
% change from '88	3.6	2.5	-1.6	1.0	3.0	1.2

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from July 1987 Forecast

+ 1.88%	Pers. Con. Exp. Durable
+ .19%	Pers. Con. Exp. Services
0.00%	Retail Sales Nondurable
0.00%	Retail Sales Durable
- .11&	Retail Sales Total
- .19%	Retail Sales Durable

LOOK FOR MODERATE GROWTH IN CONSUMER SPENDING FOR THE BALANCE OF THIS YEAR WITH WEAKNESS IN SPENDING ON DURABLES, AND FLAT GROWTH IN SPENDING ON NONDURABLES.

In 1988 a more proportionate growth is expected in spending on main categories of durables, namely automobiles and parts. Household durables will be back on track and stronger than this year's purchases of non-durables, mainly food and apparel are prediced.

Major factors that will influence increases in consumer spending in 1988:

* Continuous growth of the number of employed persons--more purchasing power.
* Rapid increase in consumer credit, after the slowdown this year.
* Low interest rates on consumer loans.
* Only slight increases in prices of energy--not as large as this year.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.-		**------Retail Sales-------*		
	Durables	Nondur-ables	Services	Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	388.1	932.7	1441.7	1454.4	568.1	888.3
1987:1*	303.0	960.3	1587.1	1483.2	536.4	926.8
2	409.7	977.0	1557.3	1515.6	557.1	958.5
3	386.5	989.1	1645.6	1554.3	577.5	976.8
4	414.3	995.7	1695.2	1586.2	600.3	985.9
YEAR	378.4	980.5	1621.3	1534.8	567.8	962.0
% change from '86	-2.5	5.1	12.5	5.5	-.0	8.3
1988:1	404.8	998.5	1727.2	1634.1	624.1	1010.0
2	415.2	1019.1	1751.8	1640.2	638.8	1001.4
3	426.9	1030.7	1789.8	1662.1	665.1	997.0
4	424.3	1046.9	1971.7	1687.2	688.3	998.9
YEAR	417.8	1023.8	1810.1	1655.9	654.1	1001.8
% change from '87	10.4	4.4	11.6	7.9	15.2	4.1
1989:1	429.5	1061.3	2007.9	1737.2	698.4	1038.8
2	436.4	1076.1	1828.3	1750.2	711.8	1038.4
3	446.1	1095.8	2157.2	1759.1	727.1	1032.0
4	450.4	1118.2	2071.3	1780.4	734.5	1045.9
YEAR	440.6	1087.8	2016.2	1756.7	718.0	1038.8
% change from '88	5.5	6.3	11.4	6.1	9.8	3.7

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

+ .91%	Pers. Cons. Expend.
+ .60%	GNP
+ .46%	Net Exports
+ .44%	State Local Purch.
+ .37%	Gross Private Dom. Inv.
- 1.12%	Federal Govt. Purch.

THE MOST POSITIVE NUMBER IN THE U. S. DEPARTMENT OF COMMERCE ESTIMATE OF THE 1987:2 NOMINAL GNP IS NET EXPORTS: 108.6 BIL. $ OR JUST $.7 BIL. INCREASE OVER 1987:1. THAT IS A NEGLIGIBLE INCREASE.

The main factor causing the negative balance of trade is oil and amounts of imported oil. Amounts of imported oil are increasing and so are prices. That drives the U.S. balance of trade into the red despite increasing exports and leveling off of non-oil imports.

Forecast data on imports of oil show that the share of imported oil on total U.S. oil consumption will remain essentially unchanged in the foreseeable future. Unless U.S. exports increase dramatically, which is unlikely, the foreign trade gap will persist with very small decrements.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3674.9	2418.7	657.2	-147.8	332.2	414.6
1987:1*	3739.4	2438.8	686.2	-133.7	325.3	424.8
2	3796.5	2488.7	673.4	-127.8	326.3	435.9
3	3829.6	2532.8	658.7	-129.3	330.2	437.2
4	3856.7	2541.0	662.0	-121.1	334.6	440.2
YEAR	3805.6	2500.3	670.1	-128.0	329.1	434.5
% change from '86	3.6	3.4	2.0	-13.4	-.9	4.8
1988:1	3883.9	2552.7	670.3	-120.3	338.1	443.1
2	3902.2	2557.2	672.2	-115.6	342.6	445.8
3	3939.7	2579.5	674.4	-109.6	346.2	449.2
4	4078.9	2712.1	678.6	-113.4	350.3	451.3
YEAR	3951.2	2600.4	673.9	-114.7	344.3	447.4
% change from '87	3.8	4.0	.6	-10.4	4.6	3.0
1989:1	4076.1	2702.9	680.2	-115.2	353.1	455.1
2	4087.2	2703.1	681.9	-113.6	356.1	459.7
3	4100.3	2711.9	676.2	-110.1	359.4	462.9
4	4116.1	2720.8	679.5	-112.1	362.0	465.9
YEAR	4094.9	2717.2	679.5	-112.8	350.1	460.9
% change from '88	3.6	4.5	.8	-1.7	1.7	3.0

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

+	.07%	Consumer Price Index
+	.07%	Producer Price Index
+	.02%	State Local Purch.
-	.38%	GNP
-	1.63%	Federal Govt. Purch.
-	.54%	Pers. Cons. Expend.

CONSUMER PRICES: KEDI maintains the forecast of moderate price increases for the balance of this year and next. Historical data for 1987 and forecast data show that the main factors that influence the CPI are prices of energy (oil and gasoline), food, and services.

The outlook for oil and gasoline prices is optimistic unless unpredictable extraordinary events take place. Thus, the major increases in oil prices are over.

Prediction of food prices is for moderate increases only.

PRICES OF SERVICES will push upward. KEDI forecast shows approximately 6% increase this year over 1986 and 6.5% in 1988 over 1987.

PRODUCER PRICES will have no inflationary increases. PPI (finished goods) increases in past months over previous months:

April	+.7%
May	+.3%
June	+.1%

This indicates that there will be no strong upward push to consumer prices from the producer price side.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	328.4	289.6	114.5	114.2	110.2	120.1
1987:1*	333.9	292.0	116.4	116.9	112.2	123.1
2	337.9	295.2	117.2	100.2	113.9	123.7
3	340.2	301.8	118.4	119.3	114.8	125.6
4	344.5	305.4	119.7	122.2	106.7	127.2
YEAR	339.1	298.6	117.9	119.2	111.9	124.9
% change from '86	3.3	3.1	3.0	4.4	1.5	4.0
1988:1	348.9	309.2	121.0	122.6	117.5	128.3
2	351.6	313.6	122.5	124.6	118.5	129.8
3	354.1	318.9	123.6	125.9	119.7	132.0
4	357.2	321.6	125.0	126.9	121.6	133.2
YEAR	352.9	315.8	123.0	125.0	119.3	130.8
% change from '87	4.1	5.8	4.3	4.9	6.6	4.7
1989:1	361.7	325.1	127.0	129.4	123.1	134.1
2	365.3	329.8	128.1	123.6	125.2	136.2
3	369.5	334.9	133.1	136.4	127.6	138.8
4	375.2	339.9	131.8	133.8	129.7	141.1
YEAR	367.9	332.4	130.0	130.8	126.4	137.6
% change from '88	4.2	5.3	5.7	4.6	5.9	5.1

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

+	.43%	State Local Purch.
+	.34%	Pers. Cons. Expend.
+	.17%	GNP
+	.38%	Gross. Private Dom. Inv.
+	.05%	Net Exports
-	1.63%	Federal Govt. Purch.

U. S. DEPARTMENT OF COMMERCE FIRST ESTIMATE OF THE 1987:2 NOMINAL GNP SHOWS A SEASONALLY ADJUSTED INCREASE OF ABOUT $100 BIL. OVER 1987:1. This increment point to approximately 6.5% growth this year compared to 1986. KEDI's forecast coincides with the GNP 1987 forecast recently released by the Federal Reserve System that calls for 6.25-7% increase. KEDI's forecast for 7.1% nominal GNP in 1988 differs slightly from that of the Fed's 5.75-7%

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------*					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4206.1	2762.1	683.6	-104.2	366.2	498.0
1987:1*	4352.5	2850.4	722.2	-107.9	365.0	522.8
2	4448.9	2944.0	702.3	-108.6	371.8	539.4
3	4534.2	3021.2	702.8	-117.9	379.1	549.1
4	4616.5	3105.2	708.6	-114.3	357.0	559.9
YEAR	4487.7	2987.6	709.0	-112.2	368.2	542.8
% change from '86	6.7	8.2	3.7	7.7	.6	9.0
1988:1	4699.5	3130.5	713.4	-110.1	397.3	568.5
2	4780.2	3186.1	715.9	-106.4	406.0	578.6
3	4869.5	3247.4	717.1	-102.4	414.4	592.9
4	5098.6	3442.9	728.7	-100.1	426.0	601.1
YEAR	4862.0	3251.7	718.8	-104.8	410.9	585.3
% change from '87	8.3	8.8	1.4	-6.6	11.6	7.8
1989:1	5176.6	3498.7	730.6	-97.6	434.7	610.3
2	5235.7	3340.8	733.8	89.2	445.8	626.1
3	5457.5	3699.1	739.1	-81.8	458.6	642.5
4	5425.0	3639.9	735.8	-77.6	469.5	657.4
YEAR	5323.4	3554.2	734.8	-41.9	452.2	634.1
% change from '88	9.5	9.3	2.2	-60.0	10.0	8.3

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from July 1987 Forecast

+	.15%	Non-Agri.
+	.14%	Total Employed
	0.00%	Agri-culture
-	.02%	Popula-tion
-	.02%	Civilian Labor Force
-	2.93%	Unemploy-ment rate

RECENT DATA CONFIRM THE TREND OF INCREASING EMPLOYMENT AND DECREASING NUMBER OF UNEMPLOYED PERSONS.

Increases in number of employed persons (non-farm payroll, seasonally adjusted--thousands):

April	+178
May	+126
June	+103
July (expected)	+300

KEDI forecast of employment is optimistic. Data indicate a continuous, slow decline of unemployment for the rest of this year and throughout 1988.

Compared to forecast recently released by the Federal Reserve System, KEDI's data are more optimistic:

Unemployment Rate
Percent, year averages

	1987	1988
Federal Reserve	6.2-6.4	6.0-6.5
KEDI	6.2	5.81

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unem-ployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	119.5	109.6	3.2	106.4	7.04
1987:1*	242.9	119.3	111.2	3.2	108.1	6.67
2	243.8	120.1	112.6	3.1	109.5	6.23
3	244.6	121.2	114.0	3.1	110.9	5.98
4	246.3	122.4	115.1	3.1	112.0	5.94
YEAR	244.4	120.8	113.7	3.1	110.6	6.21
% change from '86	1.2	1.0	1.0	-2.3	3.9	-11.86
1988:1	247.5	123.0	115.6	3.1	112.5	6.01
2	249.6	123.9	116.7	3.1	113.6	5.84
3	250.4	124.8	117.7	3.1	114.6	5.71
4	251.5	125.8	118.7	3.1	115.6	5.62
YEAR	249.8	124.4	117.2	3.1	114.1	5.79
% change from '87	2.2	3.0	3.2	-.8	3.2	-6.61
1989:1	253.9	126.8	119.6	3.1	116.5	5.71
2	254.3	127.5	120.2	3.0	117.2	5.74
3	255.1	128.5	121.3	3.0	118.3	5.62
4	256.0	129.7	122.3	3.0	119.3	5.73
YEAR	254.8	128.1	120.8	3.1	117.7	5.70
% change from '88	2.0	3.0	3.1	0.0	3.2	-1.64

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

+ 9.59%	1-Family Unit price Existing
+ 7.98%	1-Family Unit price New
+ .85%	Multiple Family Housing Starts
+ .48%	Permits Issued
+ .33%	Single Family Housing Starts
0.00%	Mobile Home Shipments

RECENT DATA INDICATE THAT THE DECLINE IN HOUSING ACTIVITY THAT STARTED IN APRIL IS LEVELING OFF.

No more significant drops are predicted for the rest of the year. However, no increases in housing starts are predicted. The balance of this year will be flat. Factors contributing to the weakness in housing will persist:

* No substantial declines in mortgage rates--forecast calls for drops in mortgage rates no earlier than in 1988.

* Inventories of unsold houses are and will remain high--6.5 months supply is predicted for the rest of the year.

* Prices of new homes have soared and will continue increasing:

	Average Price of New Home (tho. $)	Median Price of New Home
May '87	128	106
June '87	140	110
Second Half '87	152	119

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home ship-ments	Permits author-ized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1986*	1.179	.626	.244	1.769	112.2	98.3
1987:1*	1.293	.529	.241	1.731	120.0	99.5
2	1.198	.563	.240	1.695	120.9	100.6
3	1.182	.502	.239	1.674	127.6	108.5
4	1.161	.545	.240	1.676	131.2	112.9
YEAR	1.208	.535	.240	1.694	124.9	105.4
% change from '86	2.5	-14.6	-1.6	-4.2	11.3	7.2
1988:1	1.195	.512	.227	1.656	134.1	114.1
2	1.217	.532	.251	1.692	137.5	115.6
3	1.248	.537	.248	1.698	140.1	118.4
4	1.196	.549	.242	1.602	145.9	121.4
YEAR	1.214	.532	.242	1.662	139.4	117.4
% change from '87	.5	-.4	.8	-1.9	11.6	11.4
1989:1	1.140	.544	.237	1.567	146.0	122.0
2	1.248	.590	.262	1.684	148.4	123.7
3	1.250	.621	.289	1.721	150.2	125.7
4	1.209	.594	.298	1.768	151.8	127.7
YEAR	1.212	.587	.271	1.685	149.1	124.8
% change from '88	-.2	10.3	12.2	1.4	7.0	6.3

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987 FORECAST DATA	Percent Change from July 1987 Forecast
Total Light Truck Sales	+ 1.47%
Domestic Car Sales	+ .34%
Total Car Sales	+ .24%
Imported Car Sales	0.00%
Dealer Inventory	0.00%
Shipments	0.00%

COMPARED TO THE PREVIOUS FORECAST, DATA OF CAR SALES AND FACTORY SHIPMENTS FOR THIS YEAR HAVE INCREASED A BIT.

Now, forecast calls for 9.8 million cars sold and 7.5 million shipments this year--still well below the 11.5 and 7.7 of last year, respectively.

REASONS FOR INCREASED FORECAST:

* Strong sales in the second second half of June.
* Improves sales in the third quarter due to drastic incentive programs.
* No strike at GM or Ford. If a strike occurs, the effects are expected to be minimal.

1988 is forecasted a better year for the auto industry: 10.6 million cars sold, 3 million imported and 7.6 million domestically produced.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.6	3.7
1987:1*	9.4	6.8	2.6	1.9	7.7	3.4
2	9.5	6.8	2.7	1.9	7.4	3.5
3	9.9	6.9	3.0	1.8	7.6	3.5
4	9.8	6.9	2.9	1.8	7.3	3.3
YEAR	9.7	6.9	2.8	1.8	7.5	3.4
% change from '86	-16.1	-16.5	-12.5	20.0	-1.3	-7.4
1988:1	9.8	7.0	2.8	1.8	7.4	3.3
2	10.2	7.3	2.9	1.7	7.5	3.4
3	11.1	7.9	3.2	1.7	7.9	3.6
4	10.6	7.5	3.1	1.6	7.6	3.5
YEAR	10.4	7.4	3.0	1.6	7.6	3.5
% change from '87	8.0	.9	7.1	-11.1	1.3	.7
1989:1	10.0	7.0	3.0	1.7	7.2	3.2
2	10.5	7.5	3.0	1.8	7.5	3.5
3	10.8	7.7	3.1	1.7	7.3	3.4
4	10.9	7.8	3.1	1.7	7.4	3.5
YEAR	10.6	7.5	3.0	1.7	7.3	3.4
% change from '88	1.2	-.5	1.7	6.2	-3.3	-1.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change from July 1987 Forecast	
+ 2.92%	Federal Income Tax
+ .08%	Corp. Profit Tax Accrued
- .09%	State Income Tax
- 1.17%	State Surplus/ Deficit
- 1.50%	Federal Surplus/
- 1.87%	State Local Corp. Tax Accrued

As seen in Table 1.5 on the following page, significant declines in Federal budget deficits are expected this and the following years.

Data on Federal deficit have been calculated with the assumption that no tax increases will take place and the Federal expenditures will follow the Administration's proposal for 1988 fiscal year as well as the Administration's budget outlines for the following fiscal years.

Forecast data show the main factors that will contribute to declines in Federal deficit are and will stay:

* Increases of personal income taxes due to higher incomes generated by more employed persons.

* Corporate profit taxes due to expected surge in corporate profits.

Forecast data show that these budgets do not really call for additional taxation as long as Congress adheres to the provisions of Gramm-Rudman and abstains from excessive spending proposals.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	361.9	83.8	-203.3	152.1	19.7	63.1
1987:1*	375.0	105.2	-170.4	158.0	23.6	50.2
2	415.6	109.5	-162.4	162.3	24.8	52.4
3	418.7	112.0	-160.5	166.0	26.4	54.0
4	422.5	115.1	-159.3	168.9	28.3	56.1
YEAR	407.9	110.5	-163.2	163.8	25.8	53.2
% change from '86	12.7	31.8	-19.7	7.7	30.8	-15.7
1988:1	424.3	117.3	-156.1	170.1	30.4	56.1
2	427.6	120.5	-152.2	172.5	32.0	58.7
3	432.9	121.8	-150.1	177.5	33.8	60.0
4	440.5	124.0	-146.0	180.9	34.9	62.0
YEAR	431.3	120.9	-151.1	175.2	32.8	59.2
% change from '87	5.7	9.5	-7.4	7.0	27.2	11.3
1989:1	447.1	125.8	-140.1	183.9	36.4	61.4
2	454.1	128.7	-139.3	185.2	37.7	63.0
3	459.6	130.6	-133.2	187.5	39.2	64.9
4	461.8	133.1	-130.1	190.4	40.4	65.8
YEAR	455.7	129.5	-135.7	186.8	38.4	63.8
% change from '88	5.6	7.2	-10.2	6.6	17.2	7.7

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

+	.84%	Personal Income
+	.64%	Personal Disp. Income
+	.49%	Comp. of Employees
+	.15%	Average Weekly Earnings
-	.07%	Corp. After Tax Profit
-	3.61%	Personal Savings

THERE ARE NO SIGNS OF A

SLOWDOWN OR NEGATIVE GROWTH.

Forecast data for Personal Income, Personal Disposable Income, and their components point to steady growth for the rest of this year and 1988.

Personal Savings, as reported here, are based on methodology used by the U.S. Department of Commerce who calculates Personal Savings as a residual: Personal Disposable Income minus Personal Consumption Expenditures minus some small items equals Personal Saving. Actual Personal Saving is higher--if one takes into account additional items such as change in consumer credit, appreciation of households assets and some other items (Federal Reserve System methodology).
Comparison of Personal Saving
(% change from previous year)

	US Dept of Commerce	Federal Res. System
1986	+ 5.3	+7.8
1987	- 1.0	+3.4
1988	+ 3.2	+6.9

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3485.7	2971.6	2498.0	134.0	114.2	382.0
1987:1*	3587.9	3054.9	2567.3	150.2	106.5	391.2
2	3716.4	3138.5	2613.1	156.7	100.6	403.0
3	3728.7	3144.0	2665.1	163.4	110.0	405.1
4	3820.9	3229.5	2731.6	168.7	118.1	407.0
YEAR	3713.5	3141.7	2644.3	159.8	108.8	401.6
% change from '86	6.5	5.7	5.9	19.2	-4.7	5.1
1988:1	3951.4	3357.0	2789.7	173.0	118.5	409.1
2	4020.3	3420.2	2834.2	179.6	119.8	413.7
3	4096.0	3485.6	2903.5	183.0	116.5	417.9
4	4328.4	3707.0	2961.5	189.5	120.6	419.4
YEAR	4099.0	3492.5	2872.2	181.3	118.8	415.0
% change from '87	10.4	11.2	8.6	13.5	9.2	3.3
1989:1	4415.8	3784.8	2985.2	194.6	120.0	421.8
2	4503.0	3863.7	2998.7	198.4	126.5	424.5
3	4591.2	3944.1	3036.6	199.2	130.2	427.2
4	4734.3	4082.1	3092.7	204.3	133.1	428.6
YEAR	4561.1	3918.7	3028.3	199.1	127.4	425.5
% change from '88	11.3	12.2	5.4	9.8	7.2	2.5

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

+11.56%	Large Denom. Time Deposits
+ .78%	Comm. & Industy. Loans at Banks
- .52%	Mortg. at S & L Assns.
- .60%	Consumer Install. Credit
- 1.00%	Consumer & Demand Deposits
- 1.86%	Time Deposits

LOOK FOR RAPID GROWTH OF NARROW MONEY M1, SOME SLOWING DOWN OF THE GROWTH OF M2 AND M3 AND RESUMPTION OF GROWTH OF LARGE NEGOTIABLE CDs.

The main reasons for continuous rapid growth of M1 are:

* The trade gap
* Increases in value of stock traded in the stock market

Forecast of credit aggregates calls for slowing down in consumer credit, mortgage credit and commercial loans this year and resumption of fast growth of all these aggregates in 1988.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	673.2	2681.8	577.8	517.6	447.1	553.1
1987:1*	738.2	2822.8	579.5	520.4	450.1	546.0
2	750.1	2840.8	585.2	525.6	465.1	550.2
3	760.8	2886.2	596.1	531.4	476.5	554.1
4	766.7	2957.5	610.3	547.8	483.2	558.6
YEAR	754.0	2876.8	610.3	547.8	483.2	558.6
% change from '86	12.0	7.3	5.6	5.3	8.1	1.0
1988:1	772.2	3020.7	618.1	550.9	488.1	562.2
2	782.1	3106.4	625.9	553.2	492.1	565.8
3	794.3	3163.5	635.5	557.9	497.4	574.2
4	806.4	3219.7	658.3	569.4	502.7	578.1
YEAR	788.8	3127.6	658.3	569.4	502.7	578.1
% change from '87	4.6	8.7	7.9	3.9	4.0	3.5
1989:1	814.2	3274.5	669.4	571.7	507.6	580.3
2	884.2	3325.2	676.0	510.0	512.3	586.3
3	830.1	3402.7	684.7	573.6	516.7	591.2
4	838.6	3475.6	700.2	577.8	527.4	608.5
YEAR	841.8	3369.5	700.2	577.8	527.4	608.5
% change from '88	6.7	7.7	6.4	1.5	4.9	5.3

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987 FORECAST DATA

Percent Change from July 1987 Forecast	
+10.65%	20 yr Govt. Bonds Yield
+ 3.98%	Aaa Corp. Bond Rate
+ 1.87%	Prime Rate
+ 1.45%	Conv. Mortg. Rate
+ .05%	Treas. Bills 3 mo. Yield.
- .79%	S & P's 500 Avg.

INTEREST RATES WILL STABILIZE AT PRESENT LEVELS THROUGHOUT THIS YEAR AND WILL DECLINE TO SLIGHTLY LOWER LEVELS FOR MOST OF 1988. SOME INCREASES ARE EXPECTED IN 1989.

KEDI assumes that Federal Reserve will stick on low interest rates policy for the rest of this year and next.

High interest rates would have negative impact on:

* Consumer spending--would further depress auto market and housing
* Slow down business capital outlays
* Push down the bonds market

This would bring serious trouble to the economy. On the other hand, the differentials betweeen U.S. long-term rates and long-term rates overseas are wide enough to attract foreign investments in U.S. Government bonds and corporate securities. There is no need to widen it any more.

KEDI maintains the forecast of a bullish stock market for 1987 and 1988. There is still a significant difference between values of U.S. stocks and values of stocks overseas--so there is room enough for U.S. stocks to keep increasing.

Industrial Stock Indexes, July 1987 Values
(1969 = 100)

U.S.	332.4
U.K.	401.7
Canada	393.2
France	424.4
Japan	520.0

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2	5.78	8.21	9.94	9.02	8.72	317.41
3	5.68	8.50	10.04	9.02	8.70	320.23
4	5.57	8.50	10.02	9.08	8.66	324.58
YEAR	5.64	8.18	9.77	8.87	8.49	310.38
% change from '86	-5.5	-1.8	-.6	-1.6	8.8	31.3
1988:1	5.35	8.50	10.14	9.12	8.56	326.79
2	5.21	8.27	9.97	9.04	8.40	337.48
3	5.24	8.24	9.85	8.96	8.32	348.96
4	5.36	8.20	9.81	8.90	8.27	345.72
YEAR	5.29	8.30	9.94	9.00	8.39	339.74
% change from '87	-6.2	1.5	1.8	1.5	-1.2	9.5
1989:1	5.48	8.35	9.84	8.97	8.06	357.24
2	5.59	8.50	9.93	9.10	8.16	360.31
3	5.71	8.50	9.63	9.14	8.26	357.02
4	5.79	8.75	9.56	9.26	8.66	354.52
YEAR	5.64	8.53	9.74	9.12	8.29	357.27
% change from '88	6.6	2.7	-2.0	1.2	-1.2	5.2

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of GNP in const. 1982 $ has been selected for comparison. Actual number is in the Survey of Current Business, May 1987 issue, Table 1.2 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
GNP in const. 1982 $ (bil.)
Actual figure: 3674.2

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy percent difference
The Journal of Business Forecasting, p.51	1/86	3683.8	+ .3
Mellon Bank, pg. 52	1/86	3675.8	+ .0
L. D. Reese, Cities Service Oil and Gas, p. 53	1/86	3675.5	+ .0
Wharton Econometrics, p. 54	1/86	3674.5	+ .0
Metropolitan Life Insurance. p. 55	1/1/86	3660.2	- .4
Georgia State Univ., p. 66	2/86	3686.4	+ .3
KEDI, Inc., p. 67	2/1/86	3677.9	+ .0
Armco, Inc., p. 59	1/22/86	3666.0	- .2
Shearson Lehman Brothers, p. 61	1/23/86	3681.9	+ .2
John J. McAuley, Fordham Univ., p. 62	1/24/86	3676.0	+ .0
Chase Econometrics, p. 65	1/29/86	3662.6	- .3

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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SOURCES:

U.S.Department of Commerce second estimate of 1987:2, National Income and Product data, August 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, August 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

The economy isn't booming yet, but indications are that it is heading in that direction.

Prices

All indications point to a moderate rise in the CPI for the rest of this year. No need to worry about intlation!

Employment & Labor

The August unemployment rate is expected to remain flat. Forecast data call for increases in employment in many areas.

Housing

There are signs of some rebound in housing starts from low levels of 1987:2 due to stabilization of mortgage rates.

Automobiles

Latest data on car sales show an 18% jump in mid-August over mid-August sales in 1986, but that is not too encouraging.

Budgets

No significant tax increases are anticipated if the administration and Congress can come to agreements.

Income

Optimistic forecast data for the balance of this year and next with no significant slowing down or even declining.

Money & Credit

KEDI anticipates that the Fed will tighten monetary policy slightly in the months ahead with relaxation in about six months.

Interest Rates, Yields & Securities Prices

It is anticipated that the recent, moderate increases in interest rates are final and no significant further tightening will occur.

0.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1989.	July 1987
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the August 1987 KEDI Forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1990 do not point to recession or major downturn.

* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in late 1988 and in 1989.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.0

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3713.3	4208.5	4309.5	4421.5
product, p. 5	% change	2.9	3.1	2.4	2.6
Index of indust.	1977=100	125.1	141.9	146.6	151.5
prod., p.	% change	1.0	3.0	3.3	3.4
Capacity	%	79.6	81.9	81.1	80.3
utiliz., p. 5	% change	-1.0	.1	-1.0	-.9
Unemployment	%	7.0	5.7	6.5	6.4
rate, p. 5	% change	-3.1	-1.0	1.1	-.9
Private housing	mil.units	1.8	1.9	1.8	1.9
starts, p. 5	% change	-4.2	3.3	-2.0	3.5
Car sales,	mil.units	11.5	10.9	11.0	11.4
p. 5	% change	3.2	2.9	1.0	4.0
Implicit GNP	1982=100	114.5	134.7	139.5	144.7
price def.,p.11	% change	2.6	3.5	3.6	3.7
Consumer Price	1967=100	328.4	381.5	393.3	407.4
Index, p. 11	% change	1.9	3.7	3.1	3.6
Prod.Price Index	1967=100	289.6	346.0	361.6	375.4
(fin.goods),p.11	% change	-1.6	4.2	4.5	3.8
Federal Deficit	bil. $	-220.0	-107.7	-87.2	-70.0
p. 21	% change	8.2	-13.0	-19.1	-19.7
Personal Income	bil. $	3534.3	4771.1	5090.8	5472.6
p. 23	% change	5.8	6.9	6.7	7.5
Prime Rate	%	8.3	8..	9.0	9.8
p. 27	% change	-11.6	-4.0	9.1	8.6
Mortgage Rate	%	9.8	10.3	10.0	10.2
p. 27	% change	-11.7	5.8	-2.7	1.8
Currency+demand	bil. $	673.2	896.4	954.7	1019.6
deposits , p. 25	% change	13.4	7.9	6.5	6.8
Commercial+ind.	bil. $	517.6	595.9	545.8	620.3
loans, p. 25	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	87.4	90.8	90.8	91.3
production	% change	-.1	.4	.9	.4
Electric power	mil.kw-hr	2614	3355.8	3342.8	3499.6
production	% change	6.0	3.8	3.7	4.7
Bituminous coal	mil.sh.tons	872	936	973.3	984.1
production	% change	-.1	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.4	2.3
Retail sales	bil. $	1454.4	1881.5	1998.1	2138.0
p. 7	% change	6.0	7.1	6.2	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

+	2.32%	Private Housing Starts
+	.24%	Autos
+	.11%	Index Indus. Prod.
+	.09%	Capacity Util.
-	.10%	GNP
-	.17%	Unemp-loy-ment

THE ECONOMY ISN'T BOOMING YET, BUT INDICATIONS ARE THAT IT IS HEADING IN THAT DIRECTION:

* CAPACITY UTILIZATION in factories, mines, and utilities has been constantly increasing for 4 consecutive months, and the August utilization rate is expected to go up again to 81%--the highest level since November 1984.

* There is no evidence that high capacity utilization rate are pressuring prices upwards.

* In 1987:2, GNP grew by 2.3%, a fairly good performance, and indications are that at least such rate--probably higher--will be sustained in the third and fourth quarters.

* Despite the temporary decline in July, the orders for durables remained at 7.7% above the year-earlier level.

* Indications point that capital spending will continue to grow in 1988, mainly the result of an improving export market.

* Unemployment among married men, the key indicator of the employment situation, dropped in July to 3.8% of the total civilian labor force. The forecast calls for further drops to 3.6% in December this year.

* Leading indicators for July rose to 191.8% of the 1967 average from 190.8% in June.

TABLE 1.11
SELECTED INDICATORS [illegible]
Quarterly data are seasonally [illegible]justed at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy-ment	Capacity u[illegible]n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.805	11.5
1987:1*	3772.2	126.8	6.67	80.1	1.822	9.6
2*	3793.7	127.8	6.23	80.2	1.612	9.5
3	3826.2	129.2	5.97	80.[illegible]	1.647	10.3
4	3854.3	131.8	5.96	80.3	1.666	9.8
YEAR	3811.6	128.9	6.21	79.6	1.687	9.8
% change from '86	2.6	3.0	-11.8	0.0	-6.6	-14.8
1988:1	3881.0	132.4	5.94	80.4	1.630	9.8
2	3900.1	134.0	5.85	80.6	1.768	10.2
3	3936.3	135.5	5.71	81.4	1.806	11.1
4	4073.0	135.9	5.62	81.9	1.754	10.6
YEAR	3947.3	134.4	5.78	81.1	1.740	10.4
% change from '87	3.6	4.3	-6.9	[illegible]	3.1	6.4
1989:1	4066.1	136.8	5.71	81.8	1.684	10.0
2	4077.3	137.1	5.86	81.8	1.834	10.5
3	4084.2	138.1	5.88	81.7	1.915	10.8
4	4100.1	139.0	5.71	81.9	1.809	10.9
YEAR	4081.9	137.8	5.79	81.8	1.810	10.6
% change from '88	3.4	2.5	.2	.9	4.1	1.2

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change from August 1987 Forecast	
+ .69%	Pers. Con. Exp. Nondurable
+ .47%	Pers. Con. Exp. Durables
+ .15%	Retail Sales Nondurable
- .09%	Retail Sales Total
- .45%	Retail Sales Durable
- .99%	Pers. Con. Expend. Services

CONSUMER SPENDING WAS UP BY .9% IN JULY--SECOND CONSECUTIVE MONTHLY INCREASE.

It is expected that August and September will also be good months, due mainly to the auto sales incentives. KEDI forecast calls for some slowing down in consumer spending in October and November, and a rapid surge in December of this year.

KEDI's outlook for retail sales remains optimistic. The comparison of August 1986 sales is not typical because of this year's Labor Day in September. Sales will pick up in September and will slow down somewhat afterwards.

NO DECLINE OR FLATNESS ARE PREDICTED FOR THE REST OF THE YEAR.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	**Services	------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	536.4	926.8
2*	407.5	982.5	1557.5	1515.6	557.1	958.5
3	406.2	992.1	1614.3	1565.7	577.5	988.2
4	414.9	997.7	1656.7	1585.2	591.4	993.8
YEAR	406.2	985.5	1589.0	1537.4	565.6	966.8
% change from '86	.9	4.9	9.0	5.7	-.4	8.8
1988:1	408.8	1014.5	1704.0	1614.1	617.4	996.7
2	415.6	1023.1	1739.7	1635.2	638.2	997.0
3	429.9	1036.8	1768.8	1679.4	668.7	1010.7
4	424.7	1049.1	1956.4	1689.2	680.3	1008.9
YEAR	419.8	1030.9	1792.2	1654.5	651.1	1003.3
% change from '87	3.3	4.6	12.8	7.6	15.1	3.8
1989:1	429.5	1061.1	1986.6	1737.2	691.4	1045.8
2	436.8	1076.2	1983.9	1751.2	701.6	1049.6
3	447.2	1095.8	2128.3	1758.2	731.1	1027.1
4	451.8	1118.2	2120.6	1780.4	732.5	1047.9
YEAR	441.3	1087.8	2054.8	1756.8	714.1	1042.6
% change from '88	5.1	5.5	14.7	6.2	9.7	3.9

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

+	1.11%	Net Exports
+	.54%	Federal Govt. Purch.
+	.01%	Gross Private Dom. Inv.
-	.03%	State Local Purch.
-	.10%	GNP
-	.17%	Pers. Cons. Expend.

REVISED REAL GNP DATA FOR 1987:2 SHOW FURTHER EXPANSION OF THE ECONOMY--ACCELERATING NEXT YEAR.

The 1987:2 data and forecast data for 1987:3 through 1988:4 point to continuous growth. Compared to growth rates of economies of other countries, the U.S. growth is among the strongest. If the U.S. economy grows 2.8% this year and around 3.5% in 1988, it would have grown an average 3.4% since the end of 1982. Germany, for example, has a comparable growth rate of 2.5%, including the expected 1987 and 1988 outcomes: France, 2.1%; Great Britain, 1.9%, with Italy at 1.7%.

All this means that the U.S. growth rate has been, and remains, stronger than the rest of the industrial world. That helps explain why the U.S. economy has been, and still is, experiencing large trade deficits--it is expanding faster and importing more.

It is expected that imports from Japan, Germany, and other industrialized nations will slow down gradually and be replaced by imports from Brazil, Korea, Taiwan and others. Therefore, KEDI forecast calls for gradual declines only in the U.S. trade gap with very small decrements.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3872.2	2475.9	671.8	-135.2	327.3	432.3
2*	3793.7	2485.7	673.8	-133.3	333.1	434.4
3	3826.2	2525.0	659.1	-130.1	335.2	437.0
4	3854.3	2539.3	662.7	-125.1	337.8	439.6
YEAR	3811.6	2506.5	666.9	-130.9	333.4	435.8
% change from '86	2.6	2.3	2.0	-10.2	.3	3.3
1988:1	3881.0	2550.6	670.3	-122.3	339.4	443.0
2	3900.1	2554.7	672.8	-117.7	344.6	445.7
3	3936.3	2574.3	674.0	-109.9	348.9	449.0
4	4072.0	2704.0	678.9	-114.0	351.8	451.3
YEAR	3947.3	2595.9	674.0	-116.0	346.2	447.2
% change from '87	3.6	3.6	1.1	-11.4	3.8	2.6
1989:1	4066.1	2692.9	680.3	-115.2	353.2	454.9
2	4077.3	2693.6	681.7	-113.8	356.1	459.7
3	4084.2	2694.2	677.3	-110.1	359.8	463.0
4	4100.1	2703.2	680.2	-112.1	362.9	465.9
YEAR	4081.9	2703.9	679.9	-112.8	350.1	460.9
% change from '88	3.4	4.2	.9	-2.7	1.1	3.0

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

+	.54%	Federal Govt. Purch.
+	.05%	Consumer Price Index
-	.02%	GNP
-	.06%	State Local Purch.
-	.09%	Pers. Cons. Expend.
-	.11%	Producer Price Index

ALL INDICATIONS POINT TO A MODERATE RISE IN THE PPI FOR THE REST OF THIS YEAR.

NO NEED TO WORRY ABOUT INFLATION!

July prices, as measured by CPI are expected to grow by a meager .1-.2% only. Forecast data for the CPI's most volatile items, food and energy, indicate that both kinds of prices will behave moderately for the rest of the year. That points to CPI's approximate 3% annual rate for 1987. The U.S. Department of Commerce data on GNP price deflator for the second half of 1987 also point to moderate price growth in 1987:2. GNP price deflator rose by 3.8% annual rate compared to the 4.2% annual rise in the first quarter.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	328.4	289.7	114.1	114.3	110.2	119.3
1987:1*	334.8	292.1	116.1	116.9	112.1	122.4
2*	338.8	296.0	117.2	118.4	114.5	123.8
3	340.2	301.0	118.5	119.3	115.6	125.6
4	344.5	304.9	119.8	120.9	117.1	127.3
YEAR	339.6	298.5	117.9	118.9	114.8	124.8
% change from '86	3.4	3.0	3.3	4.0	4.2	4.6
1988:1	348.9	309.0	121.1	122.6	118.5	128.2
2	351.6	313.2	122.4	124.4	119.4	129.5
3	354.2	318.6	123.5	125.7	120.3	132.0
4	357.3	321.0	124.9	126.9	121.6	133.2
YEAR	353.0	315.4	123.0	124.9	120.0	130.7
% change from '87	4.0	5.7	4.3	5.0	4.5	4.8
1989:1	361.7	324.9	126.3	129.1	123.1	134.1
2	365.2	329.5	127.8	129.8	125.0	136.2
3	369.5	334.3	132.9	136.3	127.2	138.8
4	375.0	339.7	133.5	136.5	129.1	141.1
YEAR	367.9	332.1	130.1	132.9	126.1	137.6
% change from '88	4.2	5.3	5.8	6.4	5.1	5.2

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
fr
August 1987
Forecast

+ 1.93%	Net Exports
+ 1.07%	Federal Govt. Purch.
+ .05%	Gross Private Dom. Inv.
- .10%	State Local Purch.
- .14%	GNP
- .27%	Pers. Cons. Expend.

THE 1987 GROWTH RATES OF NOMINAL GNP AND PERSONAL CONSUMPTION EXPENDITURES ARE NOW A BIT LOWER BECAUSE OF THE UPWARD REVISIONS FOR 1986.

* The July benchmark revision of the 1986 National Income and Product data has affected mostly the figures of total GNP, Personal Consumption Expenditures, and Gross Private Domest Investment.

	Old Figures for '86 (Current $ bil.)	New Figures for '86
GNP	4206.1	4235.0
Personal Cons. Expenditures	2762.1	2799.8
Gross Private Dom. Invest.	683.6	671.0

With new figures for 1986, forecast data for 1987 give somewhat differing interpretation:

In 1987, the Gross Private Domestic Investment will grow at a faster rate than previously forecasted. The main reason is that the new figure for the 1986 Gross Business Fixed Capital Expenditures is lower than the old one.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------*					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4235.0	2711.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.7	-112.2	366.9	529.3
2*	4447.8	2947.3	700.9	-118.6	380.3	537.8
3	4534.0	3012.6	703.4	-118.3	387.5	548.9
4	4617.5	3069.3	708.9	-115.9	395.6	559.6
YEAR	4494.7	2981.2	703.2	-116.2	382.6	543.9
% change from '86	6.1	6.5	4.8	10.2	4.5	8.0
1988:1	4699.9	3127.3	713.9	-111.4	402.2	567.9
2	4773.7	3178.4	716.2	-109.5	411.5	577.2
3	4861.3	3235.5	717.5	-104.1	419.7	592.7
4	5085.9	3430.2	729.1	-102.3	427.8	601.1
YEAR	4855.2	3242.8	719.2	-106.8	415.3	584.7
% change from '87	8.0	8.8	2.3	-8.1	8.6	7.5
1989:1	5135.5	3477.2	711.1	-97.6	434.8	610.0
2	5210.8	3496.9	734.1	-91.4	445.1	626.1
3	5427.9	3671.3	739.9	-83.6	457.7	642.6
4	5473.6	3690.6	736.3	-79.2	468.5	657.4
YEAR	5311.6	3594.4	730.4	-88.0	451.5	634.0
% change from '88	9.4	10.8	1.6	-17.7	8.7	8.4

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from August 1987 Forecast

+	.77%	Non-Agri.
+	.75%	Total Employed
+	.74%	Civilian Labor Force
	0.00%	Agriculture
-	.02%	Population
-	.17%	Unemployment rate

THE AUGUST UNEMPLOYMENT RATE IS EXPECTED TO REMAIN FLAT.

For the rest of this year, forecast data call for further increases in employment in:

* Mining segment, especially in oil and gas drilling

STRONG INCREASES IN:

* Business and health services
* Finance (except banking)
* Real estate
* Legal services
* Entertainment
* Transportation

MODERATE GAINS IN:

* Food
* Chemicals
* Paper

SOME IMPROVEMENTS IN:

* Primary metals
* Metalworking machinery
* Defense and aerospace industries

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unem-ployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	119.5	109.6	3.2	106.4	7.04
1987:1*	242.9	119.8	111.2	3.2	108.1	6.67
2	243.8	121.5	113.9	3.1	110.8	6.23
3	244.6	122.2	114.9	3.1	111.8	5.97
4	246.3	123.0	115.7	3.1	112.6	5.96
YEAR	244.4	121.6	114.5	3.1	111.4	6.21
% change from '86	1.2	1.8	1.7	-2.3	4.7	-11.83
1988:1	247.5	123.8	116.4	3.1	113.3	5.94
2	249.6	124.9	117.6	3.1	114.5	5.85
3	250.4	125.8	118.6	3.1	115.5	5.71
4	251.5	126.8	119.7	3.1	116.6	5.62
YEAR	249.8	125.3	118.1	3.1	115.0	5.78
% change from '87	2.2	3.0	3.3	0.0	3.2	-6.89
1989:1	253.9	127.6	120.3	3.1	117.2	5.71
2	254.3	128.3	120.8	3.0	117.8	5.86
3	255.1	129.3	121.7	3.0	118.7	5.88
4	256.0	130.1	122.7	3.0	119.7	5.71
YEAR	254.8	128.8	121.4	3.1	118.3	5.79
% change from '88	2.0	2.8	2.8	0.0	2.9	.17

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change from August 1987 Forecast	
+ 2.73%	Mobile Home Shipments
+ .28%	Multiple Family Housing Starts
- .13%	1-Family Unit price Existing
- .66%	Single Family Housing Starts
- 1.31%	1-Family Unit price New
- 4.87%	Permits Issued

THERE ARE SIGNS OF SOME REBOUND IN HOUSING STARTS FROM LOW LEVELS OF THE SECOND QUARTER DUE TO STABILIZATION OF MORTGAGE RATES.

KEDI forecast data show that the rebound will not be significant. Main revival of housing activity is expected no earlier than 1988 when significant declines in mortgage rate are expected.

Despite the July rebound, housing remains well below the last year's levels.

For the first seven months of this year the construction contract value for residential building is 2% below last year's level, and taking into account the price increases for new homes, it is approximately 4% below.

No significant improvements in the residential housing is expected for the rest of the year.

Expect further declines in residential construction in the coming months.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1986*	1.179	.628	.244	1.769	112.2	98.3
1987:1*	1.256	.539	.241	1.682	120.0	99.5
2	1.136	.476	.242	1.535	120.9	100.6
3	1.153	.494	.249	1.544	127.7	108.6
4	1.120	.546	.253	1.486	130.3	112.9
YEAR	1.166	.514	.246	1.562	124.7	105.4
% change from '86	-1.1	-18.2	.9	-11.7	11.2	7.2
1988:1	1.116	.514	.230	1.550	132.1	113.1
2	1.236	.532	.259	1.592	135.5	115.6
3	1.269	.537	.261	1.608	140.1	118.8
4	1.203	.551	.244	1.574	142.6	121.5
YEAR	1.206	.534	.249	1.581	137.6	117.2
% change from '87	3.4	3.8	1.0	1.2	10.3	11.2
1989:1	1.136	.548	.236	1.568	144.0	122.0
2	1.238	.596	.260	1.680	146.4	123.1
3	1.267	.648	.281	1.721	148.3	125.0
4	1.211	.598	.272	1.761	150.8	127.7
YEAR	1.213	.598	.262	1.683	147.4	124.5
% change from '88	.6	12.0	5.5	6.4	7.1	6.1

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987 FORECAST DATA

Percent Change from August 1987 Forecast	
+ .66%	Shipments
+ .34%	Domestic Car Sales
+ .24%	Total Car Sales
0.00%	Imported Car Sales
0.00%	Dealer Inventory
0.00%	Total Light Truck Sales

LATEST DATA ON CAR SALES SHOW AN 18% JUMP IN MID-AUGUST OVER MID-AUGUST SALES IN 1986, BUT THAT IS NOT TOO ENCOURAGING.

* The year-earlier sales were extremely low.

* Sales, so far, from the latest buyer programs, haven't been as strong as last fall.

People got used to the row of incentive programs since last year and do not react as vigorously as when the first incentives appeared.

KEDI forecast of car sales remains unchanged. It is not expected that the last 1.9% interest incentives will bring spectacular results, so KEDI forecast calls for SLIGHT increases in sales. However, the forecast ALSO shows that the car sales in the post-incentive period will not drop as much as they did last year.

This means that every round of incentives is actually pulling sales ahead, and add up to real new sales only marginally. So for the next six months, less of pulling sales ahead will mean more selling afterwards.

Forecast of factory shipments of cars for the 1987:4 and 1988:1 have been slightly reduced due to recently announced plans of car makers to scale down production in these periods.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.3	1.5	7.5	3.7
1987:1*	9.6	7.0	2.6	1.9	7.7	3.4
2	9.5	6.8	2.7	1.9	7.5	3.5
3	10.3	7.2	3.1	1.8	7.6	3.6
4	9.8	6.9	2.9	1.8	7.4	3.3
YEAR	9.8	7.0	2.8	1.8	7.5	3.5
% change from '86	-14.8	-14.9	-11.7	20.0	.7	-6.8
1988:1	9.8	7.0	2.8	1.8	7.4	3.3
2	10.2	7.3	2.9	1.7	7.5	3.4
3	11.1	7.9	3.2	1.7	8.1	3.7
4	10.6	7.5	3.1	1.6	7.6	3.6
YEAR	10.4	7.4	3.0	1.6	7.7	3.5
% change from '87	6.4	.2	6.2	-11.1	1.3	1.4
1989:1	10.0	7.0	3.0	1.7	7.2	3.2
2	10.5	7.5	3.0	1.8	7.5	3.5
3	10.8	7.7	3.1	1.7	7.3	3.4
4	10.9	7.8	3.1	1.7	7.4	3.5
YEAR	10.6	7.5	3.0	1.7	7.3	3.4
% change from '88	1.2	-.5	1.7	6.2	-3.9	-2.9

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

+ .43%	State Income Tax
+ .08%	Corp. Profit Tax Accrued
- 5.44%	Federal Surplus/ Deficit
- 5.49%	State Surplus/ Deficit
- 6.38%	Federal Income Tax
- 6.55%	State Local Corp. Tax Accrued

NO SIGNIFICANT TAX INCREASES ARE ANTICIPATED IF THE ADMINISTRATION AND CONGRESS CAN COME TO AGREEMENTS.

Any such adjustments will be small and will not be tax increases in the strict meaning of the word.

Final figures for the Federal Budget deficit in 1987:2 released recently by the U.S. Department of Commerce shows a significant decline when compared to 1987:1 and the year 1986 (See Table 1.5 on the following page).

Though the decline to $141.9 billion is largely attributable to extraordinary high receipts in April (such high receipts are not expected to repeat again this year), the trend towards declining Federal Budget deficits is quite obvious.

KEDI anticipated that the outcome for this fiscal year ending September 30, 1987 will be quite close to the Gramm-Rudman targets.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	363.0	83.7	-220.1	149.8	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.7	109.6	-141.9	162.4	25.9	49.6
3	418.7	112.0	-148.5	166.4	26.3	50.1
4	422.8	115.2	-150.3	169.9	27.9	51.1
YEAR	409.7	110.0	-152.8	163.3	26.3	48.0
% change from '86	12.9	31.4	-30.5	9.0	23.4	-15.6
1988:1	424.3	117.4	-147.1	171.5	28.1	53.1
2	428.1	120.5	-142.3	173.8	30.0	54.7
3	433.4	121.9	-140.1	177.6	31.8	56.8
4	441.6	124.2	-142.0	180.9	32.7	59.2
YEAR	431.9	121.0	-142.9	175.9	30.7	56.0
% change from '87	5.4	10.1	-6.5	7.7	16.7	16.7
1989:1	448.1	125.9	-130.1	183.4	34.1	60.4
2	455.2	127.9	-129.0	185.2	35.7	61.3
3	459.6	129.8	-116.2	187.5	38.3	62.9
4	461.8	132.1	-120.1	190.4	39.4	63.7
YEAR	456.2	128.9	-123.8	186.6	36.9	62.1
% change from '88	5.6	6.5	-13.3	6.1	20.3	10.9

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change from July 1987 Forecast	
+ .18%	Comp. of Employees
+ .11%	Average Weekly Earnings
- .21%	Personal Income
- .29%	Personal Disp. Income
- 1.60%	Personal Savings
- 4.84%	Corp. After Tax Earnings

OPTIMISTIC FORECAST DATA FOR THE BALANCE OF THIS YEAR AND NEXT WITH NO SIGNIFICANT SLOWING DOWN OR EVEN DECLINING.

Latest data on corporate after-tax profits for 1987:2 shows a health gain of 4.2% after a 3.7% decline in 1987:1. Continuous good gains are forecasted for each quarter.

The annual percent changes forecasted for Personal Income, Personal Disposable income and their components remain essentially unchanged when compared to the previous forecast.

Amounts have been changed, however, because a recent significant revision of the 1986 Personal Income and Personal Disposable Income estimates by the Commerce Department. New forecast data point to continuous, solid increases with no slowdown or downturns for the rest of this year and afterwards.

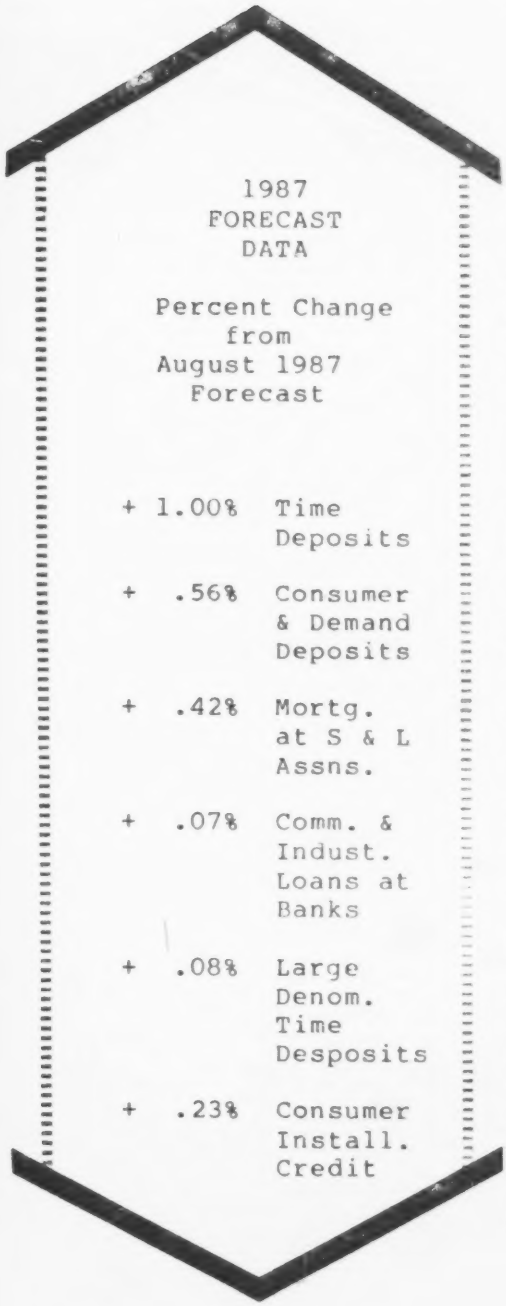
TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3713.4	3135.4	2623.4	134.2	114.0	403.1
3	3698.1	3113.0	2669.2	140.5	100.4	405.1
4	3770.2	3177.5	2740.7	157.2	108.2	407.0
YEAR	3771.9	3137.9	2655.8	140.2	115.2	401.6
% change from '86	5.0	3.8	6.0	10.6	-11.8	5.1
1988:1	3942.7	3346.9	2796.7	163.1	116.5	409.1
2	3998.8	3396.9	2844.3	170.5	114.7	413.8
3	4067.6	3456.6	2913.6	176.1	116.5	418.3
4	4277.9	3655.4	2954.8	180.4	119.9	420.6
YEAR	4071.7	3463.9	2877.3	172.5	116.9	415.5
% change from '87	9.7	10.4	8.3	23.0	1.4	3.4
1989:1	4336.0	3704.5	2980.1	184.0	120.1	422.4
2	4372.3	3731.9	2980.6	187.9	126.5	425.5
3	4558.1	3911.0	3031.4	192.5	130.0	427.8
4	4586.3	3934.1	3081.3	196.3	133.1	428.9
YEAR	4463.2	3820.4	3018.3	190.2	127.4	426.1
% change from '88	9.6	10.3	4.9	10.2	9.0	2.6

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25



1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

+ 1.00%	Time Deposits	
+ .56%	Consumer & Demand Deposits	
+ .42%	Mortg. at S & L Assns.	
+ .07%	Comm. & Indust. Loans at Banks	
+ .08%	Large Denom. Time Desposits	
+ .23%	Consumer Install. Credit	

KEDI ANTICIPATES THAT THE FEDERAL RESERVE SYSTEM WILL TIGHTEN THE MONETARY POLICY ONLY MARGINALLY IN THE MONTHS AHEAD, AND THEN IN ABOUT SIX MONTHS, TAKE A MORE RELAXED STANCE.

The current growth of money supply cannot be restricted significantly for a longer time because of still high trade deficit, needs of the stock market, and needs of the Federal budget--these three factors will continue to pressure the money supply upwards this year and well beyond.

Some more restrictions are seen in the area of credit aggregates. KEDI forecast calls for slowing down in the coming half year, in consumer credit, mortgage credit, commercial and industrial loans, and other types of credit. Relaxation is expected not earlier than in Spring 1988.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	673.2	2681.8	577.8	517.6	447.1	553.1
1987:1*	738.2	2822.8	579.5	520.4	450.1	547.4
2*	750.1	2858.9	585.2	526.1	465.1	550.8
3	758.2	2898.2	599.4	531.4	476.5	554.2
4	765.4	2974.3	610.3	547.9	483.2	559.0
YEAR	753.0	2888.6	610.3	547.9	483.2	559.0
% change from '86	11.9	7.7	5.6	5.3	8.1	1.1
1988:1	773.2	3085.7	618.2	550.8	488.4	562.8
2	784.3	3136.4	625.9	553.4	492.8	566.4
3	798.9	3173.6	635.9	558.3	497.4	576.1
4	816.5	3239.8	659.8	569.8	503.1	580.5
YEAR	793.2	3158.9	659.8	569.8	503.1	580.5
% change from '87	5.3	9.4	8.1	4.0	4.1	3.8
1989:1	819.3	3289.6	669.4	571.6	508.9	584.3
2	824.1	3342.7	674.0	510.0	513.4	589.2
3	836.5	3423.1	684.8	573.5	519.6	590.2
4	843.2	3491.8	701.2	577.4	530.4	607.5
YEAR	830.8	3386.8	701.2	577.4	530.4	607.5
% change from '88	4.7	7.2	6.3	1.3	5.4	4.7

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

+18.48%	Treas. Bills 3 mo. Yield
+ 6.23%	20 yr Govt. Bond Yield
+ 3.89%	Aaa Corp. Bond Rate
+ 2.11%	Prime Rate
+ .15%	Conv. Mortg. Rate
- .18%	S & P's 500 Avg.

IT IS ANTICIPATED THAT THE RECENT, MODERATE INCREASES IN INTEREST RATES ARE FINAL AND NO SIGNIFICANT FURTHER TIGHTENING WILL TAKE PLACE.

The pace of the economy is not, at the present time, and will not be in the foreseeable future, as strong to justify further interest rates increases motivated by actions of the Federal Reserve.

It is anticipated that the "critical period" for the monetary and credit policies will last approximately one half of the year, i.e., the dilemma the Fed is facing:

* ON ONE SIDE, there is still a need for foreign funds though the Federal deficit has declined considerably, which means interest rates have to be kept relatively high to attract foreign capital.

* ON THE OTHER HAND, interest rates cannot be raised too much so as to cause troubles to many U.S. industries.

So, KEDI anticipates that the Fed will keep the interest rates at the present levels or slightly higher, for about half a year, and then, will resume its policy of lowering the interest rates, specifically in the second half of the year.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3	6.27	8.54	10.11	9.22	9.44	318.26
4	6.46	8.75	10.14	9.38	9.68	324.85
YEAR	5.98	8.21	9.57	9.04	8.88	303.92
% change from '86	.2	-1.4	-2.5	.2	13.8	28.6
1988:1	6.80	8.73	10.21	9.34	9.70	328.51
2	6.17	8.56	9.98	9.18	9.31	335.49
3	6.12	8.34	9.83	9.98	8.64	346.86
4	5.98	8.27	9.80	8.90	8.00	345.70
YEAR	6.27	8.47	9.96	9.35	8.91	339.14
% change from '87	4.8	3.2	4.0	3.5	.4	11.6
1989:1	5.83	8.45	9.85	8.90	8.16	354.23
2	5.89	8.50	9.90	9.12	8.06	359.34
3	6.11	8.59	9.61	9.14	8.24	357.16
4	9.13	8.75	9.47	9.28	8.57	354.08
YEAR	6.79	8.57	9.71	9.11	8.26	356.20
% change from '88	7.8	1.2	-2.5	-2.6	-7.3	5.0

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of rates of growth (% change in const. 1982 $) has been selected for comparison. Actual numbers for 1985 and 1986 are in the Survey of Current Business, July 1987 issue, Table 1.2 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data have been obtained from data in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(% change of GNP in const. 1982 $)
Actual figure: 2.9

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy (percent difference)
The Journal of Business Forecasting, p.51	1/86	2.1	- .8
Mellon Bank, pg. 52	1/86	1.9	-1.0
L. D. Reece, Cities Service Oil and Gas, p. 53	1/86	1.9	-1.0
Wharton Econometrics, p. 54	1/86	1.9	-1.0
Metropolitan Life Insurance. p. 55	1/1/86	1.5	-1.4
Georgia State Univ., p. 66	2/86	2.2	- .7
KEDI, Inc., p. 67	2/1/86	2.0	- .9
Armco, Inc., p. 59	1/22/86	1.6	-1.3
Shearson Lehman Brothers, p. 61	1/23/86	2.1	- .8
John J. McAuley, Fordham Univ., p. 62	1/24/86	1.5	-1.4
Chase Econometrics, p. 65	1/29/86	1.5	-1.4
The First National Bank of Chicago, p.56	1/7/86	2.6	- .3
Citicorp Economic Services, p. 57	1/8/86	3.4	+ .5
Standard & Poor's Corporation, p. 58	1/16/86	2.4	- .5
Data Resources, Inc. p. 60	1/22/86	2.3	- .6
AmeriTrust Compan;y, p. 63	1/27/86	3.4	+ .5
Money Market Services, Inc., p. 64	1/27/86	2.9	.0

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
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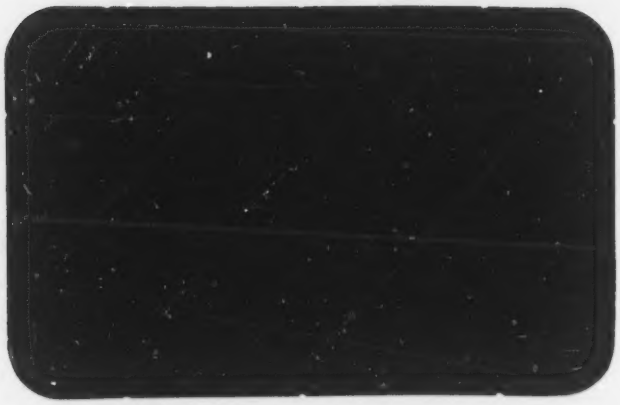

KENT ECONOMIC
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INSTITUTE, INC.

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KEDI ECONOMIC SURVEY

October 1, 1987

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SOURCES:

U.S.Department of Commerce third estimate of 1987:2, National Income and Product data, September 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, September 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

There are some good signals that show the economy on a good growth path.

Prices

The August 5.8% annual rate surge of the consumer price index is considered temporary and should not repeat again.

Employment & Labor

The expected September drop in unemployment rate suggests that the economy is on a good growth rate.

Housing

The housing cycle is winding down and will only improve slightly in 1988.

Automobiles

Despite generous incentives, mid-September data of car sales dropped below the expectations of many economists.

Budgets

It is anticipated that the Gramm-Rudman deficit reduction act will remain in force and will not be further amended.

Income

The outlook for corporate profits for the rest of 1987 and in 1988 remains optimistic.

Money & Credit

It is anticipated that the Federal Reserve Monetary and credit policies will return to a more relaxed position in 1988:2.

Interest Rates, Yields & Securities Prices

Interest rates are expected to stabilize at November-December levels through the first quarter of 1988.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will tighten a bit to the end of this year. More tightening is not expected earlier than in 1989	July 1987
3.	In 1988 and 1989 good crops in all main producing countries are anticipated.	September 1987
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.OO on page 3 shows forecast data of selected indicators of the October 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1987 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in late 1987 and in 1989.

* Federal budget deficits will keep declining in 1988 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3713.3	4178.5	4278.8	4390.1
product, p. 5	% change	2.9	3.0	2.4	2.6
Index of indust.	1977=100	125.1	141.8	146.5	151.4
prod., p. 5	% change	1.0	3.1	3.3	3.4
Capacity	%	79.6	81.3	80.5	79.8
utiliz., p. 5	% change	-1.0	0.0	-1.0	-.9
Unemployment	%	7.0	5.9	6.5	6.4
rate, p. 5	% change	-3.1	1.0	-1.1	-.9
Private housing	mil.units	1.8	1.9	1.8	1.9
starts, p. 5	% change	-4.2	3.3	-2.0	3.5
Car sales,	mil.units	11.5	10.5	10.7	11.1
p. 5	% change	3.2	2.9	1.0	4.0
Implicit GNP	1982=100	114.5	134.8	139.7	144.8
price def.,p.11	% change	2.6	3.6	3.6	3.7
Consumer Price	1967=100	328.4	383.1	395.0	409.2
Index, p. 11	% change	1.9	3.8	3.1	3.6
Prod.Price Index	1967=100	289.6	345.5	361.0	374.8
(fin.goods),p.11	% change	-1.6	4.2	4.5	3.8
Federal Deficit	bil. $	-220.0	-110.2	-89.2	-71.6
p. 21	% change	8.2	-11.2	-19.1	-19.7
Personal Income	bil. $	3534.3	4742.3	5060.1	5439.6
p. 23	% change	5.8	6.9	6.7	7.5
Prime Rate	%	8.3	8.1	8.7	9.4
p. 27	% change	-11.6	-4.8	7.2	7.8
Mortgage Rate	%	9.8	10.2	9.9	10.1
p. 27	% change	-11.7	5.8	-2.7	1.8
Currency+demand	bil. $	673.2	887.0	944.6	1008.8
deposits , p. 25	% change	13.4	7.5	6.5	6.8
Commercial+ind.	bil. $	517.6	606.3	552.0	619.7
loans, p. 25	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	87.4	91.2	90.8	91.3
production	% change	-.1	.4	.9	.4
Electric power	mil.kw-hr	2614	3355.8	3342.8	3499.6
production	% change	6.0	3.8	3.7	4.7
Bituminous coal	mil.sh.tons	872	936	973.3	984.1
production	% change	-.1	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.2	2.3
Retail sales	bil. $	1454.4	1865.0	1982.5	2121.3
p. 7	% change	6.0	7.0	6.3	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1987 FORECAST DATA

Percent Change from September 1987 Forecast

+ 2.07%	Private Housing Starts
+ 1.04%	Unemployment
+ .31%	Capacity Util.
- .04%	Index Indus. Prod.
- .46%	GNP
- .72%	Autos

THERE ARE SOME GOOD SIGNALS THAT SHOW THE ECONOMY ON A GOOD GROWTH PATH DESPITE TURBULENT EVENTS IN STOCK MARKET:

* The September Survey of Purchasing Managers composite index rose to 60.7%--the highest level since April 1984, and 14th month of consecutive increases.

* Unfilled orders in manufacturing increased considerably in August from $206.07 in July to $206.07 billion. The small decline in new orders is considered temporary.

* Index of leading indicators rose in August to 192.6% from the revised 191.4% in July.

* The July and August U.S. Department of Commerce Survey has shown that U.S. business firms plan capital spending of $389.07 billion, up from $379.47 billion in 1986--that is 1.4% after inflation adjustment.

All of this points to probable developments in the U. S. economy in the next half year, approximately. Add to that a good outlook for employment, increasing strength of the manufacturing sector, and declining Federal deficit--that translates into good prospects of the U.S. economy in 1988.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.805	11.5
1987:1*	3772.2	127.0	6.67	80.1	1.822	9.6
2*	3795.3	128.3	6.23	80.2	1.612	9.5
3	3825.2	130.6	5.97	81.0	1.662	10.1
4	3851.3	131.3	5.96	81.3	1.672	9.4
YEAR	3811.0	129.3	6.21	79.6	1.692	9.7
% change from '86	2.6	3.4	-11.8	0.0	-6.3	-16.1
1988:1	3870.0	132.4	5.96	81.0	1.620	9.6
2	3881.4	133.8	5.88	81.1	1.753	10.0
3	3915.3	135.4	5.80	81.4	1.806	11.1
4	4050.6	135.8	5.72	81.9	1.762	10.6
YEAR	3929.3	134.4	5.84	81.3	1.735	10.3
% change from '87	3.1	3.9	-5.9	2.2	2.6	7.0
1989:1	4044.1	136.5	5.74	81.6	1.685	10.0
2	4051.4	137.0	5.86	81.5	1.835	10.4
3	4057.5	137.9	5.88	81.0	1.920	10.5
4	4074.3	138.7	5.92	81.1	1.827	10.1
YEAR	4056.8	137.5	5.85	81.3	1.817	10.2
% change from '88	3.2	2.4	.2	-.1	4.7	-.7

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from September 1987 Forecast

- .11%	Pers. Con. Exp. Durables
- .34%	Pers. Con. Exp. Services
- .62%	Pers. Con. Exp. Nondurable
- .88%	Retail Sales Durable
- 1.03%	Retail Sales Total
- 1.11%	Retail Sales Nondurable

NO SIGNIFICANT UPS OR DOWNS IN CONSUMER SPENDING ARE PREDICTED FOR THE BALANCE OF THIS YEAR AND 1988.

The latest data on consumer spending and retail sales are optimistic:

* In August, consumer spending was 1.5% after the .7% increase in July over June. Excluding auto sales, consumer outlays still increased by .6% in August.
* Forecast data for the rest of the year and for 1988 for consumer spending show regular increments in all main categories: durables, nondurables, and services.
* Some slowing down, mainly in purchases of consumer durables are expected in 1989.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	536.4	926.8
2*	409.0	982.1	1552.6	1515.6	557.1	958.5
3	411.2	989.1	1612.8	1560.6	577.9	982.7
4	410.1	992.7	1667.1	1580.2	592.8	987.4
YEAR	406.6	983.5	1590.0	1534.9	566.0	963.8
% change from '86	1.0	4.7	9.1	5.5	-.4	8.5
1988:1	407.5	1001.5	1710.9	1596.2	617.4	978.8
2	415.6	1023.1	1723.5	1615.2	630.2	985.0
3	429.7	1033.1	1757.8	1659.3	661.8	997.5
4	424.5	1040.2	1952.2	1679.4	672.0	1007.4
YEAR	419.3	1024.5	1786.1	1637.5	645.4	992.2
% change from '87	3.1	4.2	12.3	6.7	14.0	2.9
1989:1	426.2	1051.1	1966.7	1717.2	586.4	1130.8
2	433.8	1063.2	1988.5	1731.3	690.6	1040.7
3	447.2	1075.6	2140.5	1750.4	709.1	1041.3
4	446.1	1088.2	2144.2	1773.1	719.5	1053.6
YEAR	438.3	1069.5	2060.0	1743.0	676.4	1066.6
% change from '88	4.5	4.4	15.3	6.4	4.8	7.5

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

+	.95%	Net Exports
-	.06%	Federal Govt. Purch.
-	.21%	State Local Purch.
-	.18%	Gross Private Dom. Inv.
-	.46%	GNP
-	.56%	Pers. Cons. Expend.

IT IS ANTICIPATED THAT THE ADMINISTRATION WILL TAKE MORE VIGOROUS STEPS TOWARD A SIGNIFICANT DECLINE OF THE U.S. TRADE IMBALANCE IN 1988.

The U. S. Department of Commerce third estimates of Real GNP and components show further improvements when compared to their previous data: higher GNP, more personal consumption, and less Federal and State and Local purchase, and a lower trade deficit. However, the declines in the trade deficit still remain meager and not sufficient to bring the U.S. trade imblance to a more tolerable level. Compared to the $145.8 Bil. excess of imports over exports in 1986, data for for 1987:1 show a decline down to $135.2, and for 1987:2, a further decline by only $2.5 bil., seasonally adjusted.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3872.2	2475.9	671.8	-135.2	327.3	432.3
2*	3795.3	2487.5	673.7	-132.7	332.6	434.4
3	3825.2	2523.8	660.9	-131.4	335.9	436.0
4	3851.3	2538.3	663.1	-126.8	338.1	438.6
YEAR	3811.0	2506.4	667.4	-131.5	333.5	435.3
% change from '86	2.6	2.3	2.0	-9.8	.3	3.1
1988:1	3870.0	2543.6	667.3	-123.3	340.4	442.0
2	3881.4	2539.7	672.0	-119.7	344.5	444.9
3	3915.3	2556.4	673.2	-110.4	348.0	448.1
4	4050.6	2685.8	678.7	-115.0	351.0	450.1
YEAR	3929.3	2577.9	672.8	-117.1	346.0	446.3
% change from '87	3.1	2.9	.8	-11.0	3.7	2.5
1989:1	4044.1	2674.5	679.3	-115.9	353.0	453.2
2	4051.4	2671.6	681.0	-114.1	356.2	456.7
3	4057.5	2674.2	676.3	-111.8	359.8	459.0
4	4074.3	2680.8	680.2	-112.1	362.9	462.5
YEAR	4056.8	2678.8	679.2	-113.5	350.1	457.9
% change from '88	3.2	3.9	1.0	-3.1	1.2	2.6

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

+	.22%	Consumer Price Index
-	.06%	Pers. Cons. Expend.
-	.02%	GNP
-	.15%	State Local Purch.
-	.33%	Producer Price Index
-	.46%	Federal Govt. Purch.

THE AUGUST 5.8% ANNUAL RATE SURGE OF THE CONSUMER PRICE INDEX IS CONSIDERED TEMPORARY AND SHOULD NOT REPEAT AGAIN IN THE FORESEEABLE FUTURE.

Forecast data for CPI for the rest of this year and for 1988-1989 have remained essentially unchanged when compared to those published in the September KEDI Survey.

Forecast data for PPI also call for moderate increases within tolerable limits.

It is anticipated that factors that have contributed to the low rate of inflation in 1986 and this year will remain in force in 1988: no above average wage increases; plentiful supply of materials and consumer goods; no significant upward pressures on costs and prices due to the low international value of the dollar.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967=100	1967=100	1982=100	1982=100	1982=100	1982=100
Year & Qtr.						
1986*	328.4	289.7	114.1	114.3	110.2	119.3
1987:1*	334.8	292.1	116.1	116.9	112.1	122.4
2*	338.8	296.0	117.1	118.3	114.1	123.9
3	342.5	298.8	118.5	119.4	115.2	125.6
4	345.5	303.2	119.8	120.9	116.7	127.3
YEAR	340.4	297.5	117.9	118.9	114.5	124.8
% change from '86	3.7	2.7	3.3	4.0	3.9	4.6
1988:1	348.9	307.6	121.1	122.7	118.1	128.2
2	352.0	312.2	122.4	124.5	118.9	129.3
3	355.4	317.6	123.5	126.0	119.8	131.8
4	358.8	320.0	124.9	127.2	121.0	132.7
YEAR	353.8	314.4	123.0	125.1	119.5	130.5
% change from '87	3.9	5.7	4.3	5.2	4.3	4.6
1989:1	362.7	323.8	126.3	128.8	122.1	133.1
2	366.3	329.0	127.8	130.5	124.1	135.2
3	370.6	333.8	132.9	137.0	126.2	137.6
4	376.8	339.7	133.5	137.2	128.2	140.2
YEAR	369.1	331.6	130.1	133.4	125.1	136.5
% change from '88	4.3	5.5	5.8	6.6	4.8	4.6

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

+ 3.09%	Net Exports
- .24%	Gross Private Dom. Inv.
- .39%	State Local Purch.
- .40%	Pers. Cons. Expend.
- .46%	GNP
- .48%	Federal Govt. Purch.

WHILE NEGATIVE NET EXPORTS REMAIN UNCOMFORTABLY HIGH, OTHER COMPONENTS OF NOMINAL GNP ARE IN LINE, CONFIRMING AN EXPECTED GROWTH OF THE ECONOMY FOR THE REST OF THIS YEAR AND IN 1988.

The 1987:2, third and final estimate of nominal GNP and components provides a bit more optimism when compared to the second estimate, mainly due to the lower estimates of price deflators. However, the data for net exports is not good: $-118.4 bil. compared to $-112.2 bil. in 1987:1. KEDI forecast data for 1987:3 and afterwards show that the 1987:2 figure represents the peak, and gradual, slow declines are predicted to take place afterwards.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------*					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4235.0	2799.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.7	-112.2	366.9	529.3
2*	4445.1	2943.7	702.6	-118.4	379.6	537.6
3	4532.9	3013.1	703.2	-118.0	387.0	547.6
4	4613.9	3069.9	708.0	-116.9	394.6	558.3
YEAR	4492.2	2979.6	703.4	-116.4	382.0	543.2
% change from '86	6.1	6.4	4.8	10.3	4.3	7.9
1988:1	4686.6	3119.9	711.9	-113.9	402.0	566.6
2	4750.8	3162.2	715.3	-111.5	409.6	575.3
3	4835.4	3220.6	717.0	-109.7	416.9	590.6
4	5059.2	3416.9	725.6	-105.3	424.7	597.3
YEAR	4833.0	3229.9	717.5	-110.1	413.3	582.4
% change from '87	7.6	8.4	2.0	-5.4	8.2	7.2
1989:1	5107.7	3444.0	731.1	-101.6	431.0	603.2
2	5177.7	3485.5	733.2	-100.5	442.0	617.5
3	5392.4	3663.3	737.1	-93.6	454.1	631.6
4	5439.2	3678.5	736.3	-89.3	465.2	648.4
YEAR	5278.9	3578.2	734.4	-96.2	448.1	625.2
% change from '88	9.2	10.8	2.4	-12.6	8.4	7.3

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from September 1987 Forecast	
+ 1.04%	Unemployment rate
0.00%	Agriculture
- .02%	Population
- .12%	Civilian Labor Force
- .22%	Total Employed
- .23%	Non-Agri.

THE EXPECTED SEPTEMBER DROP IN UNEMPLOYMENT RATE SUGGESTS THAT THE ECONOMY IS ON A GOOD GROWTH RATE.

Forecast data for the rest of the year and for 1988 show the encouraging trend for employment in goods producing industries: main increments are predicted for nondurable industries, closely followed by increases in employment in the durable segment of manufacturing.

Outlook for employment in the construction sector remains mixed: good level is predicted for roads repair and construction, apartment housing, and public projects, especially those of state and local governments.

No significant improvements are expected for single-family housing, and non-residential construction, especially offices and plants.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	119.5	109.6	3.2	106.4	7.04
1987:1*	242.9	119.8	111.2	3.2	108.1	6.67
2*	243.8	121.5	113.9	3.1	110.8	6.23
3	244.6	122.3	115.0	3.1	111.9	5.97
4	246.3	123.2	115.9	3.1	112.8	5.96
YEAR	244.4	121.7	114.5	3.1	111.4	6.21
% change from '86	1.2	1.8	1.7	-2.3	4.7	-11.83
1988:1	247.5	123.8	116.4	3.1	113.3	5.96
2	249.6	124.7	117.4	3.1	114.3	5.88
3	250.4	125.6	118.3	3.1	115.2	5.80
4	251.5	126.5	119.3	3.1	116.2	5.72
YEAR	249.8	125.2	117.8	3.1	114.7	5.84
% change from '87	2.2	2.8	3.0	-.8	3.0	-5.92
1989:1	253.9	127.3	120.0	3.1	116.9	5.74
2	254.3	1285.0	1209.7	3.0	1206.7	5.86
3	255.1	129.0	121.4	3.0	118.4	5.88
4	256.0	139.8	131.5	3.0	128.5	5.92
YEAR	254.8	420.3	395.7	3.1	392.6	5.85
% change from '88	2.0	235.8	235.4	0.0	242.2	.17

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987 FORECAST DATA

Percent Change from September 1987 Forecast

+ .42%	Multiple Family Housing Starts
+ .11%	1-Family Unit price Existing
+ .04%	1-Family Unit price New
+ .03%	Permits Issued
- .58%	Single Family Housing Starts
- 1.16%	Mobile Home Shipments

THE HOUSING CYCLE IS WINDING DOWN AND WILL ONLY IMPROVE SLIGHTLY IN 1988.

The relatively low level of residential and non-residential housing is expected to persist in 1988 with a better outlook afterwards.

Forecast data for housing remain barely changed when compared to the September KEDI forecast.

In 1988, single-family housing is expected to be slightly above the 1987 level. In the first half of the year it will remain depressed and will recuperate somewhat in the second half of 1988 when significant declines in mortgage rates are predicated.

The outlook for multi-family housing is more optimistic: slow but persistent increases in 1988 and afterwards.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home ship-ments	Permits author-ized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1986*	1.179	.628	.244	1.750	112.2	98.3
1987:1*	1.256	.539	.234	1.684	120.0	99.5
2*	1.136	.476	.232	1.547	120.9	100.6
3	1.154	.508	.229	1.548	127.8	108.7
4	1.120	.552	.243	1.476	130.4	113.0
YEAR	1.167	.519	.235	1.564	124.8	105.5
% change from '86	-1.1	-17.4	-3.9	-10.6	11.2	7.3
1988:1	1.106	.514	.230	1.540	132.2	113.2
2	1.217	.536	.249	1.592	135.5	115.6
3	1.269	.537	.261	1.619	140.3	118.9
4	1.204	.558	.244	1.575	142.6	121.6
YEAR	1.199	.536	.246	1.582	137.7	117.3
% change from '87	2.8	3.4	4.9	1.1	10.3	11.3
1989:1	1.137	.548	.236	1.538	144.1	122.2
2	1.238	.597	.240	1.641	146.6	123.2
3	1.269	.651	.281	1.756	148.3	125.0
4	1.218	.609	.272	1.969	150.8	127.9
YEAR	1.216	.601	.257	1.726	147.4	124.6
% change from '88	1.4	12.1	4.5	9.1	7.1	6.2

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987 FORECAST DATA

Percent Change from September 1987 Forecast

+ .71%	Total Light Truck Sales
0.00%	Imported Car Sales
0.00%	Dealer Inventory
- .72%	Total Car Sales
- 1.01%	Domestic Car Sales
- 1.30%	Shipments

DESPITE GENEROUS INCENTIVES, MID-SEPTEMBER DATA OF CAR SALES DROPPED BELOW THE EXPECTATIONS OF MANY ECONOMISTS.

Recently released data confirm the current trend in car sales and production, as predicted by KEDI since 1985

The passenger car and light truck cycle is winding down for the rest of the year, and improvement is not expected earlier than the second half of 1988. All indications point to slow sales in the first half of 1988, near-record levels of inventories of unsold cars, and increasing share of imported cars on total car sales.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.5	3.7
1987:1*	9.6	7.0	2.6	1.9	7.7	3.4
2	9.5	6.8	2.7	1.9	7.5	3.5
3	10.1	7.0	3.1	1.8	7.6	3.6
4	9.4	6.7	2.9	1.8	7.3	3.3
YEAR	9.7	6.9	2.8	1.8	7.5	3.5
% change from '86	-16.1	-16.2	-11.7	20.0	.3	-6.8
1988:1	9.6	6.8	2.8	1.8	7.3	3.3
2	10.0	7.1	2.9	1.7	7.5	3.4
3	11.1	7.9	3.2	1.7	8.0	3.8
4	10.6	7.5	3.1	1.6	7.6	3.6
YEAR	10.3	7.3	3.0	1.6	7.6	3.5
% change from '87	7.0	.8	6.2	-11.1	1.0	2.2
1989:1	10.0	7.0	3.0	1.7	7.3	3.2
2	10.4	7.4	3.0	1.8	7.5	3.5
3	10.5	7.4	3.1	1.7	7.6	3.7
4	10.1	7.0	3.1	1.7	7.4	3.5
YEAR	10.2	7.2	3.0	1.7	7.5	3.5
% change from '88	-.7	-2.4	1.7	6.2	-2.0	-1.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

+	.69%	Federal Income Tax
+	.28%	State Income Tax
-	.40%	State Surplus/ Deficit
-	.45%	Corp. Profit Tax Accrued
-	.73%	State Local Corp. Tax Accrued
-	1.89%	Federal Surplus/ Deficit

IT IS ANTICIPATED THAT THE GRAMM-RUDMAN DEFICIT REDUCTION ACT WILL REMAIN IN FORCE AND WILL NOT BE FURTHER AMENDED.

Future deficit reduction measures will follow the expenditures side (= budget cuts) rather than the receipt side (= tax increases) which will do nothing good but WILL ACCELERATE INFLATION.

Forecast data for Federal deficit remains optimistic. Preliminary data for the 1987 fiscal year, which ended September 30, 1987, indicate an approximate $60 billion reduction when compared to the deficit of the 1986 fiscal year, which was $212 billion. THAT IS A REAL ACHIEVEMENT!

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	363.0	83.7	-220.0	149.8	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.6	107.9	-139.2	162.3	26.4	50.6
3	418.5	112.0	-146.2	166.5	26.8	50.8
4	422.8	114.3	-150.0	169.9	27.7	51.9
YEAR	409.6	109.3	-151.5	163.3	26.5	48.6
% change from '86	12.8	30.6	-31.1	9.0	24.3	-14.5
1988:1	424.3	115.5	-146.3	171.5	28.4	53.1
2	429.9	120.4	-142.0	173.9	30.0	54.5
3	436.6	121.7	-138.1	178.3	31.2	56.7
4	448.8	124.2	-134.4	181.9	32.3	58.8
YEAR	434.9	120.5	-140.2	176.4	30.5	55.8
% change from '87	6.2	10.2	-7.4	8.0	15.1	14.8
1989:1	452.1	125.9	-130.1	184.4	33.2	59.3
2	457.2	127.8	-129.5	186.2	34.7	61.0
3	466.4	129.9	-116.3	189.7	38.3	62.1
4	471.6	132.7	-120.5	192.0	39.1	63.6
YEAR	461.8	129.1	-124.1	188.1	36.3	61.5
% change from '88	6.2	7.2	-11.5	6.6	19.2	10.3

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change from September 1987 Forecast	
+ .14%	Average Weekly Earnings
- .02%	Comp. of Employees
- .50%	Personal Income
- .69%	Personal Disp. Income
- 2.29%	Corp. After Tax Earnings
- 4.79%	Personal Savings

THE OUTLOOK FOR CORPORATE PROFITS FOR THE REST OF 1987 AND IN 1988 REMAINS OPTIMISTIC.

KEDI's industry forecast shows healthy gains in earnings for most industries, lead by service-producing industries.

In manufacturing, significant improvements are expected in most of the non-durable industries.

In August, Personal Income rose to $3.750 trillion from a revised $3.732 trillion, seasonally adjusted.

Excluding the distorting component, subsidies to farmers, it grew .6% in August after a .3% rise in July. That is a good, healthy trend, and forecast data indicate it will continue for the rest of this year and afterwards.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3708.6	3130.6	2623.8	134.9	93.2	403.1
3	3971.5	3206.5	2669.8	140.1	95.3	405.6
4	3861.8	3268.3	2740.7	153.2	100.2	407.1
YEAR	3801.0	3182.8	2656.1	139.3	106.8	401.8
% change from '86	7.5	5.3	6.0	9.9	-18.2	5.2
1988:1	3925.3	3329.5	2796.7	163.1	106.5	409.1
2	3980.5	3376.7	2843.0	167.5	110.7	414.8
3	4052.7	3437.8	2913.0	170.2	112.6	419.5
4	4268.3	3637.6	2953.8	173.4	115.4	420.9
YEAR	4056.7	3445.4	2876.6	168.6	111.3	416.1
% change from '87	6.7	8.2	8.3	21.0	4.2	3.6
1989:1	4304.8	3668.3	2982.1	178.0	117.1	422.1
2	4357.8	3714.4	2981.6	182.6	120.4	425.1
3	4550.1	3894.0	3051.5	187.5	121.0	426.3
4	4577.7	3914.1	3084.3	191.4	125.2	427.2
YEAR	4447.6	3797.7	3024.9	184.9	120.9	425.2
% change from '88	9.6	10.2	5.2	9.7	8.6	2.2

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987 FORECAST DATA

Percent Change from September 1987 Forecast

+ 1.01%	Large Denom. Time Deposits
+ .16%	Mortg. at S & L Assns.
- .78%	Consumer & Demand Deposits
- 1.30%	Comm. & Indust. Loans at Banks
- 1.70%	Consumer Install. Credit
- 3.39%	Time Deposits

IT IS ANTICIPATED THAT THE FEDERAL RESERVE MONETARY AND CREDIT POLICIES WILL RETURN TO A MORE RELAXED POSITION IN THE SECOND QUARTER OF 1988.

However, the growth of aggregates of money supply is expected to continue rapidly, though not at such a percipitous speed as in 1987 and preceding years.

KEDI forecast calls for a general slowdown in credit aggregates in 1988: less of growth in consumer credit, commercial and industrial loans, and mortgages. However, the short-term credit is expected to increase at approximately the same percentage in 1988 as it did in 1987.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	673.2	2650.8	577.8	517.6	447.1	553.1
1987:1*	738.2	2824.3	579.5	520.4	450.1	547.4
2*	750.1	2830.3	585.3	526.1	465.0	550.8
3	751.3	2860.1	602.4	531.6	472.6	554.9
4	758.7	2904.3	612.3	541.0	480.2	558.3
YEAR	749.6	2854.8	612.3	541.0	480.2	558.3
% change from '86	11.3	7.7	6.0	5.3	7.4	.9
1988:1	770.2	2955.7	618.6	546.0	489.6	562.9
2	779.4	3036.7	626.4	550.4	492.9	566.7
3	790.9	3083.9	633.9	558.3	497.4	576.7
4	807.4	3130.8	651.2	560.1	508.3	581.4
YEAR	787.0	3051.8	651.2	560.1	508.2	581.4
% change from '87	5.0	6.9	6.4	3.5	5.8	4.1
1989:1	811.3	3189.5	663.2	571.4	508.7	584.6
2	819.2	3223.7	670.0	510.1	513.9	589.7
3	829.5	3303.2	684.9	573.5	519.6	590.4
4	840.3	3336.5	700.3	587.5	536.4	607.0
YEAR	825.1	3263.2	700.3	587.5	536.4	607.0
% change from '88	4.8	6.9	7.5	4.9	5.5	4.4

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987 FORECAST DATA

Percent Change from September 1987 Forecast

+ 6.58%	Prime Rate
+ 4.19%	Treas. Bills 3 mo. Yield
+ 2.18%	Conv. Mortg. Rate
- 3.76%	Aaa Corp. Bond Rate
- 3.32%	S & P's 500 Avg.
- 3.76%	20 Year Govt. Bond Yield

INTEREST RATES ARE EXPECTED TO STABILIZE AT NOVEMBER-DECEMBER LEVELS THROUGHOUT THE FIRST QUARTER OF 1988, AND THEN START GRADUALLY DECLINING FOR THE REST OF 1988.

KEDI forecast on the U.S. interest rates calls for temporary increases throughout this month and November.

It is anticipated that interest rates in key countries will not be increasing enough to force the U.S. interest rates further upwards.

Forecast data show possible disturbances mainly in the stock market for the rest of the year, and the absence of traditional, election year's push-up of prices of stocks at the beginning of 1988. Resumption of a more steady, trend is stock the stock market is expected to start in 1988:2.

Forecast data of markets for bonds are a bit more optimistic when compared to those for the stock market, mainly due to the persisting demand of overseas investors. The 1988 supply of U.S. bonds is expected to be slow, approximately at 1987:3 levels. Some shifts of funds from the stock market to bonds markets are anticipated.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3	6.57	8.54	10.41	9.32	9.51	321.50
4	6.89	9.31	10.95	10.19	10.29	291.80
YEAR	6.16	8.35	9.85	9.26	9.05	296.47
% change from '86	3.2	.2	.3	2.7	16.0	25.4
1988:1	6.84	9.55	10.72	9.86	10.13	278.32
2	6.67	9.30	10.21	9.58	6.87	285.60
3	6.42	8.85	9.93	9.38	8.94	291.89
4	6.20	8.71	9.85	9.21	8.36	295.71
YEAR	6.53	9.10	10.18	9.51	8.57	287.88
% change from '87	6.0	9.0	3.3	2.6	-5.2	-2.9
1989:1	6.05	8.25	9.85	9.14	8.26	292.40
2	5.94	8.50	9.76	9.12	8.20	287.35
3	6.12	8.61	9.61	9.27	8.27	286.90
4	6.29	8.75	9.42	9.38	8.61	291.20
YEAR	6.10	8.53	9.66	9.23	8.33	289.46
% change from '88	-6.6	-6.3	-5.1	-2.9	-2.8	.5

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Personal Consumption Expenditures on Services (bil. $) has been selected for comparison. Actual numbers for 1985 and 1986 are in the Survey of Current Business, August 1987 issue, Table 1.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data have been obtained from data in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Consumption Expenditures on Services, bil. $)
Actual figure: 1458.0

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy (%)
Manufacturer Hanover Trust Co., p. 45	12/85	1378.3	-5.5
UCLA Business Forecasting Project, p. 46	12/85	1376.7	-5.6
Research Seminar in Quantitative Economics, Univ. of Michigan, p. 49	12/12/85	1381.2	-5.3
Metropolitan Life Insurance. p. 55	1/1/86	1394.3	-4.4
Georgia State Univ., p. 66	2/86	1407.5	-3.5
KEDI, Inc., p. 67	2/1/86	1421.6	-2.5
Standard & Poor's Corporation, p. 58	1/16/86	1369.8	-6.0
Money Market Services, Inc., p. 64	1/27/86	1410.4	-3.3

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36